BCSC BRITISH COLUMBIA SECURITIES COMMISSION

InvestRIGHT BC Securities Commission Investor Education

British Columbia Securities Commission

ANNUAL REPORT

2006/07

contents

2 Message from the Chair
7 Executive Director's commentary
9 Organizational overview
20 BCSC Education Fund
23 Report on performance
43 Enforcement
47 Enforcement highlights
53 Financial report
73 Financial statements
84 Alignment with government's strategic plan
85 Glossary
87 Resources for investors

THIS DOCUMENT IS REGISTERED WITH THE NATIONAL LIBRARY OF CANADA · ISSN 1208-1825

2007-05802/

The British Columbia Securities Commission (BCSC) is the provincial government agency responsible for regulating trading in securities in BC, and the third largest of Canada's provincial securities regulators. We are accountable to the provincial legislature and the public through the Attorney General, to whom we submit our annual report and audited financial statements. We also submit a three-year service plan to the provincial Treasury Board as required under the *Securities Act* and the *Budget Transparency and Accountability Act*. Our service plan, renewed annually, contains our strategic objectives and action plans for achieving them. This report describes our performance for the period April 1, 2006 – March 31, 2007, as set out in the BCSC's 2006 – 2009 Service Plan.

Message from the Chair

In 2006/07 the British Columbia Securities Commission continued to focus attention on two things: improving the way we regulate, and working with the government and our colleagues in other provinces to improve the Canadian regulatory system for securities markets. We made significant progress on both fronts.

PRINCIPLES-BASED REGULATION

For the previous five or six years, we had found these two objectives to be in conflict. Our moves toward more principles-based requirements and more outcomes-focused processes did not mesh well with a national drive toward more harmonized requirements and more common approaches. Our colleagues in the Canadian Securities Administrators (CSA), to greater or lesser degrees, did not accept or agree with the changes we considered necessary for better regulation. Put bluntly, we were constantly forced to choose between adopting the approaches we considered best from a regulatory perspective and harmonizing our requirements and processes with those of our colleagues.

I am happy to say that we have moved into a new phase. There is a much greater prospect than ever before that Canadian regulators will adopt a more principles-based approach. We still face significant differences of view on some projects and we often have to compromise in the interests of harmonization. However, CSA is now much more open to considering new approaches, reflecting a growing consensus among governments, regulators, and industry leaders. A call for more principles-based rules is now part of almost every proposal for improving Canadian securities regulation.

PASSPORT

Just before the BCSC's year-end, we joined with our fellow regulators in all provinces and territories except Ontario to publish for comment the second phase of the passport system. Passport 2 is significantly advanced from Passport 1, which we adopted in 2005. It covers prospectus filings, registration, exemption applications, and continuous disclosure and is designed to give a public company or investment firm access to markets across Canada by dealing only with its principal regulator and complying only with harmonized laws. We expect to begin implementing the package of rule, policy, and administrative changes early in 2008.

The Ontario government has not signed the passport agreement with other provinces. It says it would be prepared to participate in passport, but only as a first step on a path to creating a common securities regulator within a fixed schedule. No other province is willing to make that kind of commitment or hold up the development and implementation of the passport system to discuss it. These governments have therefore instructed regulators to proceed with passport.

We recognize that passport would be more useful to market participants with Ontario participating, but it will bring significant benefits even without Ontario. We have designed the system so Ontario can join when it is ready and we continue to invite our Ontario colleagues to join us.

The debate continues about whether Canada should have a single, national securities commission, and there are strong views on both sides. Sadly, much of the debate is founded on misconceptions about how our current regulatory system works and naïve assumptions about how an alternative would work. Any resolution of the debate will come from governments, not regulators. Our job is to work with the system we have to deliver the best regulation we can. Part of that effort, for the BCSC, is to continue developing and implementing the passport system, which can deliver real benefits to market participants within the next year.

NEW DIRECTIONS

The move to passport means that CSA must now move to a deeper level of cooperation, coordination, and harmonization. CSA members have asked ourselves, what could happen within our operations that could prevent the passport system from working smoothly? In what ways are our operations not yet coordinated or streamlined enough to maintain common standards in a system where we rely more on each other than ever before?

During the year, we articulated these risks and ranked them based on our perceptions of their likelihood and impact. We are now making plans to ensure that we consistently interpret and apply our harmonized requirements, that we make consistent decisions, and that we make our regulatory system quicker, easier, and cheaper to deal with. CSA is highly motivated to make the passport system work in a way that will earn the confidence of market participants. I look forward to continuing work with my CSA colleagues to foster trust and collaboration among our organizations.

On the technology front, CSA launched a voluntary filing program using XBRL, a business reporting language that allows financial information to be easily exchanged and analyzed. CSA's commitment to improving how information is collected and provided to regulators and investors augers well for marketplace efficiency.

We in BC were also pleased during the year to recognize a new exchange—egX Canada Inc.—for real estate-related securities. Recognizing a new market in Canada is a rare event, and the egX Canada recognition order is unique among Canadian recognition orders because it is largely outcomes-based and supported by guidance.

Message from the Chair
continued

FINANCIAL PICTURE AT YEAR-END

Securities market participants fund our operations through fees they pay under the *Securities Act*. As the market grows, our fee revenues increase and thereby fund the necessary increase in regulatory activity. However, some of our revenue sources are volatile. We aim to break even over the business cycle and to manage revenue fluctuations through a fee stabilization reserve. The reserve is designed to ensure that a temporary decline in fee revenues does not impair our ability to regulate effectively or require us to seek fee increases during a weak market.

Recent market activity has been strong so we generated an operating surplus of $3.1 million in fiscal 2006/07, due mostly to higher-than-expected fees from mutual fund and exempt market securities distributions. The surplus has enabled us to increase the fee stabilization reserve to within its target range. Please read the Financial Report section, beginning on page 53, for details.

ANNIVERSARY YEAR

Twenty years ago, on February 1, 1987, the government brought into force what was then the "new" *Securities Act*, creating the British Columbia Securities Commission in place of the old Office of the Superintendent of Brokers. Changes within the organization started right away as we looked for better ways to regulate and we pioneered some of the important changes in Canadian securities regulation.

- In 1988, we received government approval for a rudimentary self-funding model, starting the change that led in the mid-to-late 1990s to the conversion of the BCSC and other major securities commissions to crown corporations.
- We were the first commission to get the power to disqualify directors and officers (1988) and to impose administrative penalties (1989.)
- Policy changes and more active enforcement programs began, slowly, to change the culture of the junior securities market. Today, we have in Canada one of the world's most active and best-regulated junior markets.
- In the early 1990s, we went to CSA with a proposal to create an electronic filing system for reporting issuers. What emerged was the system we know today as SEDAR.

The BCSC is now a bigger and more sophisticated agency than the one that started 20 years ago with three commissioners and about 50 staff. Sixteen staff members who went through that transition are still here, along with several more (including me) who joined the Commission during its first few years. We have seen the BCSC go through an amazing transformation since those early days, along with changes in the markets we regulate.

One thing that has remained constant over the years is that the BCSC has focused on innovation, always looking

for fresh approaches for dealing with emerging market issues and protecting investors. Many of the steps we took in the early years have led the way forward for Canadian securities regulation and support our vision today—to play a leading role in securities regulation that supports investor confidence and fair, efficient, and innovative Canadian capital markets.

PEOPLE

We welcomed three new commissioners during the year. Kenneth G. Hanna, David J. Smith, and Suzanne K. Wiltshire joined us in July 2006 as independent commissioners. They bring significant expertise and experience, and some fresh perspectives, which are already making a difference.

In November 2006, Adrienne Salvail-Lopez resigned as Vice Chair of the British Columbia Securities Commission, for medical reasons related to her failing eyesight. Ms. Salvail-Lopez joined the Commission in 1987 as Director of Policy and Legislation. She was appointed a commissioner in 1992 and a vice chair in 2002. In addition to chairing many complex hearings and drafting several significant decisions, she led a number of projects that have benefited both investors and companies. Ms. Salvail-Lopez oversaw the development of innovative new capital raising exemptions, which are now used by issuers across Canada. She also initiated and coordinated the development of the Commission's award-winning teacher and student materials for the Finances component of Planning 10, an initiative that helps to prepare students for the realities of life after high school. On behalf of the Commission, I would like to thank Ms. Salvail-Lopez for her many years of dedicated service on behalf of investors, issuers, and the securities industry in British Columbia.

I thank my fellow commissioners, advisory committees, Executive Director Brenda Leong, and all the staff for a remarkable effort throughout the year. The securities markets are complex and dynamic. They continue to throw us new challenges that make our jobs both trying and rewarding. I am proud of how our organization has adapted to the challenges and how we continue to seek and find opportunities to deliver better value to investors and the people of British Columbia.

DOUGLAS M. HYNDMAN
Chair and Chief Executive Officer

Accountability statement

The 2006/07 BCSC Annual Report was prepared under my direction in accordance with the *Budget Transparency and Accountability Act*. I am accountable for the contents of the report, including what has been included and how it has been reported.

We have prepared the information presented in accordance with the BC Reporting Principles. It reflects the actual performance of the BC Securities Commission for the twelve months ended March 31, 2007 in relation to the 2006/09 service plan. There was only one significant variation from the plan: a greatly increased emphasis on investor education. We identify some minor changes in the appropriate sections of this report.

The measures we present are consistent with the BCSC's mission and goals and focus on outcomes that are critical to our organization's performance. We discuss limitations in our data on page 42. I am responsible for ensuring internal controls are in place so that we measure performance information accurately and in a timely fashion.

The report contains estimates and interpretive information that represent the best judgment of management. In preparing it, we have considered all significant decisions, events, and identified risks as of June 7, 2007.

DOUGLAS M. HYNDMAN
Chair and Chief Executive Officer

Executive Director's commentary

INTRODUCING INVESTRIGHT

Prevention lies at the heart of our thinking behind investor education. In this past year, we committed resources and spent a tremendous amount of energy laying the groundwork for a new investor education strategy. We started by completing a detailed review of existing investor education research in Canada, the United States, and Australia. With our CSA colleagues, we then commissioned primary research into Canadians' investment experience and knowledge and touched on their exposure to investment fraud. We were very pleased during the year to release the findings of this research as part of the launch of our new InvestRight investor education program.

Our research revealed that many adults lack the necessary financial literacy skills they need to make sound investment decisions. The InvestRight program combines both warnings and education. It targets those most at risk of investment fraud—seniors, faith-based groups, pre-retirement baby boomers, ethnic and immigrant communities. InvestRight aims to teach investors critical thinking skills, with emphasis on knowing and spotting the "red flags" that signal a potential investment scam. We want it to be a one-stop resource built around the InvestRight website.

This focus on prevention also sharpened our enforcement strategies this year, resulting in our enforcement arm working more closely with our education arm on a new early warning initiative. InvestRight prominently features the RED ALERT program, through which we alert specific at-risk communities about suspected illegal investment activities, and work with media and law enforcement agencies to get the warnings out. Between October and March we issued three RED ALERTS. Through these efforts we hope to encourage more people to come forward with information, tips, and complaints to further our objective to disrupt, stop, and prevent investment fraud.

INTER-AGENCY COOPERATION

As our mandate is to regulate BC capital markets, we focus our enforcement efforts on cases with a strong BC connection. However, we recognize that securities markets are also global, so it is critical that we cooperate extensively with other regulators and enforcement agencies in Canada, the United States, and other countries to deal effectively with cross-border misconduct.

Three years ago we recognized the reputation risk to BC's capital markets posed by the abusive activities of unscrupulous local promoters and brokers in the US over-the-counter markets. As part of our strategy to deal with this risk, we raised awareness among BC-connected

Executive Director's commentary
continued

participants that BC securities laws apply to them and that we enforce those laws. Our corporate finance and enforcement staff worked closely with our US counterparts to strengthen our ability to deal with cross-border activity where BC-based operators use US-based companies to conduct illegal activities.

As a result of a coordinated, parallel investigation with the US Securities and Exchange Commission (SEC) last year, two people were ordered out of the BC capital markets for life. In this case we were able to disrupt and stop the scheme early in its operation, about three months after the illegal activity began. Cases like this send a strong message that borders will not stop regulators from assisting one another to protect our markets and investors.

Through another inter-agency effort last year, we worked cooperatively with the BC Civil Forfeiture Office (CFO) to reach a settlement under which the respondent agreed to make restitution to aggrieved investors. Staff recognized the opportunity to work with the CFO and took the initiative to find a creative solution whereby BC residents who lost more than a million dollars in a US-based scheme would be able to recover part of their investment losses.

COLLABORATION

A common theme runs throughout this report—collaboration. We are continually striving to become a more outcomes-focused and results-based organization.

We rely on our growing ability to share information and collaborate across operational boundaries for success in moving our organization forward. During the year we introduced a number of knowledge management tools to help us on the technical side of collaboration, rolling out an organization-wide document management system and training staff to use web-based tools like wikis and blogs. Staff also formed cross-operational teams to tackle some of our more challenging strategic risks, such as abusive junior market practices and investment fads, to launch InvestRight, and to implement our enforcement early-warning initiative.

I am very pleased to see that in search of better solutions and innovative approaches, staff are working more collaboratively with each other and with outside organizations. Staff's commitment to collaboration goes a long way to furthering our regulatory objectives. I can clearly attribute much of the year's success to the ways in which we worked together, sharing and leveraging our skills and knowledge for the benefit of investors and the integrity of the capital markets.

BRENDA M. LEONG
Executive Director

organizational overview /

Organizational overview

MISSION

Our mission is to protect and promote the public interest by fostering:

- A securities market that is fair and warrants public confidence
- A dynamic and competitive securities industry that provides investment opportunities and access to capital

The BCSC's enabling legislation is the *Securities Act*, RSBC 1996, c. 418.

VISION

Our vision is to play a leading role in securities regulation that inspires investor confidence and supports fair, efficient, and innovative Canadian capital markets.

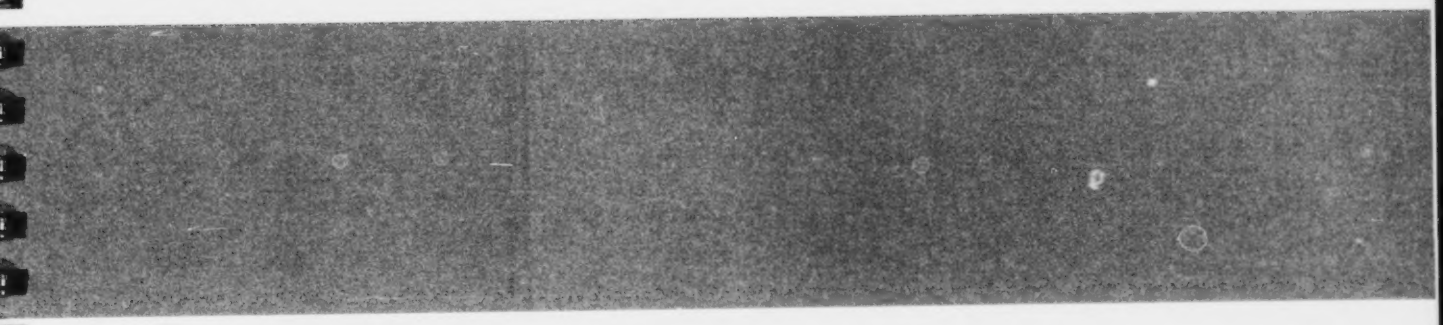
VALUES

We are committed to smarter regulation and keeping pace with fast-evolving capital markets. We expect our people to exemplify the following values in their work:

- *Excellence*—we commit to high standards and take pride in our work
- *Service*—we provide efficient, timely, and responsive service
- *Integrity*—we act fairly and ethically
- *Accountability*—we take responsibility for meeting our commitments
- *Resourcefulness*—we take a risk-based approach and are proactive, innovative, and cost-effective

We use a performance management system to measure and reward the application of these values in four core attributes or behaviours:

- *Drive for results*—Exhibit a sense of urgency. Push for high levels of accomplishment. Think of better ways to do our jobs. Set and meet specific, measurable, achievable, relevant, and time-based objectives.
- *Effective communication*—State expectations clearly, express ideas well, and keep others informed. Use plain language to communicate.
- *Problem solving*—Anticipate and focus on important, well-defined problems. Break complex problems into manageable parts. Use good judgment to form opinions by weighing evidence and testing premises. Measure the effectiveness of implemented solutions.
- *Teamwork and cooperation*—Work together to maximize each other's talents to accomplish the BCSC's goals. Act professionally and cooperatively. Contribute to team effectiveness by thinking independently. Support and advance team goals.



GOVERNANCE /

During the year, we updated the Commission's governance policy. Under the policy, we disclose information about both the policy and our governance practices on the governance page of the Commission website. We disclose this information in other documents by cross-reference to the website.

The Commission is governed by a board consisting of the commissioners appointed under the *Securities Act*. The commissioners have three categories of responsibilities. They:

- Review and approve the development and implementation of securities legislation, regulations, rules, policies, and guidance, and oversee the activities of self-regulatory organizations
- Act as adjudicators on applications for review of self regulatory organizations (SROs) and exchange decisions and enforcement matters brought under the *Securities Act*
- Act as the Commission's board of directors, overseeing the Commission's management, operations, and financial affairs

The governance policy requires the following information about the Commission to be disclosed in the annual report.

Waivers The Commission has an ethics and conduct policy. The board granted no waivers from that policy during the year.

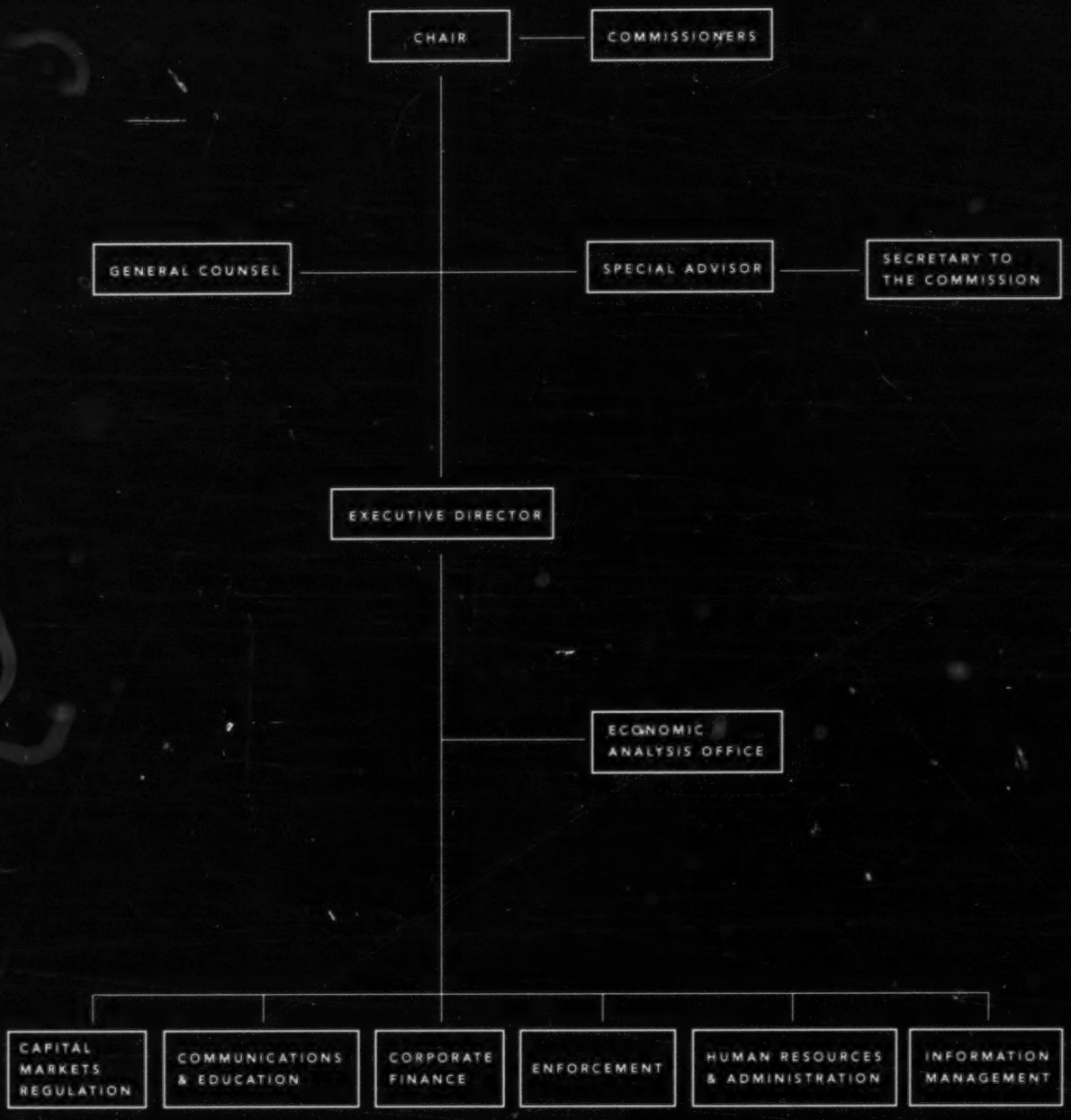
Commissioner compensation and attendance records Please refer to page 61 in the management discussion and analysis for commissioner names, attendance record, and compensation.

Compensation consultants Please see page 62 in the management discussion and analysis section for information on a compensation consultant retained this year to assist in determining compensation for commissioners or senior managers.

Temporary committees The board formed no temporary committees during the year.

Compliance with governance policy and procedures There were no deviations from the governance policy this year.

Organizational structure



ADVISORY COMMITTEES

We have four advisory committees that help us accomplish our mission:

Securities Law Advisory Committee

The Securities Law Advisory Committee (SLAC) advises the Commission on securities regulation legal and policy issues. It provides an important link for communication between the Commission and securities lawyers, including communication on emerging issues. The committee has up to 12 members. Members serve for staggered terms of three years, renewable for one additional term of three years. The vice chair of the Securities Law Section of the Canadian Bar Association's BC branch also serves on the committee.

Securities Policy Advisory Committee

The Securities Policy Advisory Committee (SPAC) represents a cross-section of market participants. Members contribute to the development of securities regulatory policy and provide independent input to the Commission's policy formulation process and to the detection of emerging issues. The committee has up to 12 members. Members serve for staggered terms of three years, renewable for one additional term of three years.

Public Company Technical Forum of the Institute of Chartered Accountants of BC

This body of the Institute of Chartered Accountants of BC offers an opportunity for practicing members serving publicly-traded companies to discuss their observations and concerns with the BCSC and TSX Venture Exchange representatives. It also allows the BCSC and the exchange to consult with accounting professionals on future securities regulation policy directions and the possible impact on public companies and their auditors.

CSA Mining Technical Advisory and Monitoring Committee

This committee of mining industry technical representatives serves as a forum for continuing communications between the mineral industry and the CSA. For example, the committee advises the regulators about issues related to National Instrument 43-101 Standards of Disclosure for Mineral Projects, mineral industry and professional developments and other matters related to securities regulation. There were nine industry committee members in 2006/07, including four from BC, and one observer each from the Toronto Stock Exchange (TSX) and TSX Venture Exchange.

In addition to these advisory committees, we consulted on a less formal basis during the year with stakeholders including public company directors, senior executives of public companies, institutional investors, investment dealers, mutual fund dealers and hedge fund managers, as well as litigators who appear before the Commission.

STAFFING / & FUNDING

We are committed to operating the BCSC on a break-even basis with a stable, relatively small, and highly efficient staff. The chart below shows staffing and funding over three years and our fiscal 2008 expectations.

	ACTUAL			PROJECTION
	2005	2006	2007	2008
Staffing	195	191	189	200
Operating expense	$ 26.7 million	$ 27.4 million	$ 28.5 million	$ 30.2 million

ACTIVITY / STATISTICS

As at March 31	2004	2005	2006	2007
Registrants[1]	18,478	25,090	26,815	28,463
Active reporting issuers	6,206	6,366	6,245	6,316
Mutual fund prospectus filings	2,390	2,649	2,410	2,518
Prospectus filings *(non-mutual fund)*	628	634	699	851
Initial public offerings[2]	196	277	306	307
Continuous disclosure reviews[3]	287	721	204	289
Annual information forms[4]	631	1,039	1,691	1,913
Cease trading orders *(reporting issuers)*	360	314	226	338
Exemption applications	478	442	372	352

1 Figures for fiscal 2005, 2006, and 2007 drawn from the National Registration Database (NRD). The fiscal 2004 figure is an estimate, as NRD was not in place to provide a definite number.

2 Initial public offerings are a subset of all prospectus filings.

3 The number of continuous disclosure reviews in 2005 was significantly higher because we did a special management discussion and analysis (MD&A) review. This figure is not comparable to prior or subsequent years.

4 In June 2006, investment fund issuers had a new requirement to file an annual information form (AIF) if they did not have a current prospectus on file. This accounts for a majority of the increase in filings for the 2007 fiscal year compared to 2006.

KEY STAKEHOLDERS

Our stakeholders have diverse yet interdependent interests, both provincial and national in scope. They include:

- *The public*—who rely on us to foster capital markets that contribute to the economic well being of the province
- *Investors*—both retail and institutional, who seek to invest in fair and efficient securities markets
- *Issuers*—public and private companies that rely on the capital markets for funding
- *Securities firms*—registered to provide investment services to both users and suppliers of capital
- *Self-regulatory organizations*—which we rely on and oversee
- *The provincial government*—to which we are accountable
- *Other Canadian regulators*—with which we develop and implement regulatory policy through the CSA

ASSESSING STAKEHOLDER SATISFACTION

We assess stakeholder satisfaction by surveying those who file applications with our Capital Markets regulation and Corporate Finance divisions. Ask them if we were prompt, professional, and objective, and if we kept them informed. While we exceeded our target for the year, we note the declines in satisfaction for 2005/06. Due to the small sample size, the number of responses can cause the percentages to change significantly. Our review of the underlying numbers, however, does not raise any concerns. We will continue striving to improve our service levels.

DIVISION	INDUSTRY GROUP SURVEYS	05/06 ACTUAL	06/07 TARGET	06/07 ACTUAL	07/08 TARGET
Capital Markets Regulation	Firm, SRO, applicant satisfaction	93%	80%	86%	80%
Corporate Finance	Issuer, applicant satisfaction	94%	80%	91%	80%

CORE BUSINESS AREAS

We organize our work around four strategic goals set out in our service plan in the core areas of compliance, enforcement, policy-making, and investor education.

Compliance

We focus our compliance activities on BC-based dealers, dealer branches in BC, BC-based issuers, and other market participants based in BC.

- The Capital Markets Regulation division oversees securities firms, their employees, self-regulatory organizations and exchanges. Staff monitor registered firms, self-regulatory organizations, and exchanges for compliance with securities legislation; register firms and their salespeople; review applications for recognition or exemptions from registrant regulatory requirements; and review policy development proposals from the self-regulatory organizations and exchanges. Registration is an important tool for fostering fair and efficient capital markets and protecting investors. Registered representatives must be qualified persons with the education, experience, and integrity required to serve and advise investors. Registered firms must be financially viable and follow conduct standards that ensure investors are well-served. This includes conflicts management, complaints handling, client relationship requirements, client disclosures, compliance, controls and supervision to manage regulatory, and business risk.
- The Corporate Finance division oversees the companies that raise capital in the public or private securities markets, and their insiders. Staff review securities offering documents, receipt prospectuses, and review applications for exemptions from regulatory requirements. They also monitor public company disclosure (including financial statements), exempt capital-raising, and insider reporting. The aim of the disclosure requirements on companies and insiders is to encourage informed decision-making by all parties to securities transactions. Markets operate most efficiently when investors have confidence that they have access to timely, accurate, and complete information.
- The CSA share the responsibility for overseeing SROs. Each SRO has a lead CSA regulator responsible for most of the oversight work, subject to monitoring by the other CSA jurisdictions. The BCSC is the lead regulator for the Mutual Fund Dealers Association (MFDA). The Ontario Securities Commission is the lead regulator for the Investment Dealers Association of Canada (IDA) and Market Regulation Services Inc. (RS) and for the TSX. The BCSC and the Alberta Securities Commission (ASC) share lead regulatory responsibility for the TSX Venture Exchange. In March 2006, the BCSC recognized egX Canada Inc. as an exchange for the listing and trading of real estate securities and related financial products. We now oversee this exchange as well.

Enforcement

We focus on important cases with a strong BC connection. Our enforcement actions involve investigating possible breaches of the *Act*, conducting administrative hearings before Commission panels, and representing the BCSC before the courts. When a case involving a BC-based market participant has national implications, the BCSC usually leads the CSA's enforcement response. When a case emerges related to an SRO member, the SRO typically takes the lead on the enforcement action. We refer appropriate cases to Crown counsel for criminal prosecution.

Policy-making

We have the power under the *Act* to make rules. We also issue guidance to help market participants understand our requirements. We make rules and issue guidance in cooperation with CSA. Our goal is to develop a harmonized system of securities regulation among all jurisdictions. Market participants can apply for exemptions from our rules. Often an application is made in several jurisdictions. We analyze exemption applications and cooperate with other CSA jurisdictions, based on mutual reliance principles, to reach an appropriate and harmonized decision in all jurisdictions participating in the decision. When the passport proposal published in March 2007 comes into effect, anyone granted an exemption in their principal jurisdiction will automatically have an exemption from equivalent requirements in other jurisdictions.

Investor education

We run targeted programs for investors to help them protect themselves from fraud and unsuitable investments. This involves delivering both warning and education messages through strategic partnerships to broaden our reach into various communities throughout the province. In addition, we provide easy-to-understand information to investors through our consumer-friendly InvestRight program. On the national front, we work closely with our CSA colleagues to identify common areas of focus as part of defining an overall CSA investor education strategy.

BCSC OPERATING CAPACITY

To support our core business areas, we recruit and retain qualified staff, develop and maintain reliable information management systems, and manage our operations cost-effectively.

Human Resources

We strive to attract and retain capable staff by recruiting employees who embody our values, keeping the BCSC compensation structure competitive, improving our regulatory competencies through training, and maintaining a succession plan. We focus our efforts to maintain a motivating work culture by providing opportunities for staff to learn and grow, supporting team work, providing effective performance feedback, and strong internal communication channels.

Information Management

We develop, manage, and support key national and local systems to advance our regulatory work. Key local systems that improve our communication with the public and industry include e-services (for filing applications for exemptions), our public website, a database to search for registered persons, a defaulting issuers list, and a disciplined persons list.

Gathering relevant information and getting that knowledge to the right staff or stakeholder at the right time is critical to our overall efficiency and effectiveness as a regulator. Information management supports our knowledge culture by enabling us to conduct custom research, manage records, respond to public inquiries, build custom interfaces to regulatory databases, and run internal workflow systems. We maintain internal project management expertise to guide us through large projects and we support business continuity planning.

Finance

We manage spending through budget planning, tracking, and reporting, and by keeping risk and cost considerations top-of-mind throughout the organization. We report our financial performance to stakeholders as required under the *Securities Act*, the *Budget Transparency and Accountability Act*, and the *Financial Information Act*. Our purchasing systems, payroll systems, and expense and reimbursement procedures all contribute to effective control of our significant financial and physical risks.

SERVICE DELIVERY

Although our statutory mandate is to regulate BC capital markets, in reality we are part of a system of securities regulation that is national in scope. This significantly affects how we do our work and influences how we think about and implement securities policy in BC.

There is a broad consensus among all stakeholders that a system of regulation that is largely, if not completely, harmonized among all jurisdictions in Canada will best serve the interests of both industry and investors. We therefore coordinate our work as much as possible with the other members of the CSA. All CSA jurisdictions strive to minimize differences of policy and procedure to achieve the appropriate level of harmonization throughout the country.

We also devote significant resources to leading the CSA's support of the government-led passport system project. All provinces and territories, except Ontario, are working to implement this system. Its goal is efficient, streamlined, and cost-effective securities regulation in Canada that is faster and simpler for market participants to use. In March 2007, the participating jurisdictions published a proposal to implement the passport initiative. The proposal would allow market participants to comply only with harmonized laws consistently applied and interpreted throughout Canada and to deal solely with their home regulator, eliminating the need for separate approvals from each jurisdiction. We designed the system for adoption by all Canadian jurisdictions to allow market participants to focus on how the system could operate to streamline Canadian securities regulation.

Under the CSA umbrella and powers provided in the *Act*, we rely on three self-regulatory organizations to perform key regulatory functions related to investment dealer and mutual fund dealer firms, and trading activity on Canadian equity marketplaces:

- Investment Dealers Association of Canada, which regulates investment dealers
- Mutual Fund Dealers Association of Canada , which regulates mutual fund dealers
- Market Regulation Services , which regulates equities trading on Canadian marketplaces, including the TSX, the TSX Venture Exchange, the Canadian Trading and Quotation System, egX Canada Inc., and other exchanges and alternative trading systems. (RS is in merger discussions with the IDA. If the merger proceeds as the parties intend, it will likely occur during 2007/2008.)

INTERNATIONAL / COOPERATION

The BCSC regularly cooperates and coordinates with US federal and state regulators in enforcement matters. We are also active in three organizations that represent North American, pan-American, and international securities regulators, respectively:

- North American Securities Administrators Association (NASAA)—an organization of Canadian provincial, American state, and Mexican federal securities regulators
- Council of Securities Regulators of the Americas (COSRA)—a forum for mutual cooperation and communication among securities regulators in North, South, and Central America, and the Caribbean , COSRA focuses on investor protection, market integrity, regulatory cooperation and information-sharing.
- International Organization of Securities Commissions (IOSCO)—the international authority for global cooperation related to regulatory standards, surveillance, enforcement, and information exchange among securities regulators

We have several formal memoranda of understanding (MOUs) with specific foreign regulators and IOSCO that establish processes and expectations for assisting each other in gathering information for investigations. We received a total of 27 requests for assistance under these various MOUs, as detailed below:

- US SEC: 15
- US Commodity Futures Tracing Commission (CFTC): 2
- UK Financial Services Authority (FSA): 1
- HK Securities and Futures Commission (SFC): 7
- AU Australia Securities & Investments Commission (ASIC): 2
- BF Securities Commission of the Bahamas: 1

We made a total of 20 requests for assistance in 2006-07, as detailed below:

- US SEC: 11
- US CFTC: 3
- HK SFC: 4
- UK Guernsey Financial Services Commission: 1
- VI British Virgin Islands Financial Services Commission: 1

BCSC Education Fund

The BCSC established an education fund in 1991 to receive revenue from administrative penalties imposed on market participants who violate securities regulations. The Commission may only spend this money on investor and industry education.

Over the past couple of years, we received new information that made a compelling case for stepping up our investor education program to protect BC investors from fraud and unsuitable investments. Historically, the Commission targeted seniors for its investor education programs. We believed that seniors were the most vulnerable and had the most to lose. New information suggested that another target audience was increasingly at risk for fraud—pre-retirement boomers. We also recognized that many employers are eliminating traditional defined benefit pension plans. Fewer and fewer people will be able to rely on such pensions as the cornerstone of their retirement.

On October 3, 2006, we launched InvestRight, a consumer-friendly, investor education program. A key component is the comprehensive InvestRight website, which provides a wide range of tools to help investors develop the critical thinking skills they need to protect themselves. It has a "scam meter" that enables investors to see if the investment they are considering shares common traits with past scams. It also includes videos of victims telling their stories, and makes it easy for anyone to file a complaint, help the Commission fight stock spam, or report a scam.

During the year we made a fundamental change to the way we manage the fund. We now develop more of our own programs and operate with partners rather than relying on third parties. We have assessed all existing partnerships to ensure they fit within the new strategy. The fund is our primary resource for implementing the InvestRight program. Other fund activities include: primary and secondary research, including the first-ever CSA Investor Index; new criteria for assessing proposals; and launch of the Red Flags campaign, designed to alert investors about sales pitches used by scam artists.

Please see page 64 in the management discussion and analysis section for a full account of education fund activity.

Our financial life skills resource prepares future investors in BC classrooms

FINANCIAL / LIFE SKILLS FOR GRADE 10 STUDENTS

For the past two years, we have offered our popular Financial Life Skills resource to teachers who teach Finances to grade 10 students. The resource covers important financial topics including budgeting, saving, investing, and investment fraud. Since introducing the resource in November 2004, over 1,200 teachers in all 61 school districts have requested it.

The resource's innovative approach blends fictional characters with real-life financial activities and decisions in a hands-on, activity-based format. As each financial topic is introduced, students learn the concepts and information through eight "life-stage characters," each facing different financial circumstances.

In July 2006, we assessed the effectiveness of our resource. We measured the knowledge and attitudes of students before and after attending the Finances course taught with our resource. The findings show:

- A majority of students found the topics interesting and engaging
- 85 per cent of students gave the course a B or higher
- Students found almost all of the topics easy to understand
- After taking the course, students saw financial planning as more personally relevant to them and were more aware of their vulnerability to fraud

In May 2005 and 2006, the Commission surveyed teachers about their use of and satisfaction with the resource. Key findings include:

- Many teachers said they personally learned something by using the BCSC materials
- Over 80 per cent of the teachers rated the resource positively and said they intended to use it again

We support teachers using our resource through a province-wide training program. We show teachers how to use the resource, explain key concepts and provide strategies for keeping students engaged. We offer face-to-face training and have recently launched our webinars—interactive real-time web-based training.

We have recently begun a financial literacy advocacy campaign. The campaign is aimed at school trustees and administrators, teachers and parents. The goal of this program is to give future and current investors the tools they need to ask the right questions before making investment decisions, and to protect themselves from fraud.

There is an opportunity to utilize the Financial Life Skills resource across Canada, given that there are no comparable resources for high school students. This year's federal budget called for a plan to promote financial literacy, particularly for young Canadians, by developing new financial educational materials. The government, through its Financial Consumer Agency of Canada, is looking for partners with good content to use on a national basis.

The Financial Life Skills resource and our financial literacy advocacy campaign are part of a number of investor education programs offered through our InvestRight program.

report on performance

Report on performance

GOALS / Four goals support our mission:

GOAL 1 / Promote a culture of compliance

GOAL 2 / Act decisively against misconduct

GOAL 3 / Advance smart rule making and guidance

GOAL 4 / Educate investors

RISKS / This section describes each goal, the strategies supporting it, and the progress we made during the year towards achieving them all. We use a risk management framework to help identify the most serious threats, or risks, to our mission. This framework gives us confidence that the following risks, which we have focused on for the past two planning cycles, remain the most significant:

RISK 1 / Unsuitable investments

Unsuitable investments occur when brokers or financial advisers don't fulfill what we call "suitability obligations" under the *Securities Act* and as a result—investors buy products that aren't right for their portfolios.

RISK 2 / Investment fads

Investment fads lead investors to invest too heavily in popular securities whose risks they do not fully understand.

RISK 3 / Abusive junior market practices

Abusive junior market practices undermine the confidence that investors have in BC companies. They harm the reputation and competitiveness of the BC market overall as well as the interests of BC companies wanting to raise money outside the province.

Identifying key strategic risks brings focus to our operating priorities. We report our progress in dealing with each risk under the goal to which it is most directly related. The strategies described under each goal support our efforts to meet the goal in one of two ways. They are either a direct response to identified market risks related to the goal, or a commitment to improving operational efficiency or effectiveness.

Our mission is to protect and promote the public interest by fostering a securities market that is fair and warrants public confidence, and by fostering a dynamic and competitive securities industry that provides investment opportunities and access to capital.

MEASUREMENTS /

We have performance measurements for each goal to help us assess our performance, which we select based on the following criteria:

- *Connection to our goals* — we choose measurements that will objectively reflect our progress in achieving our goals and, through them, our mission
- *Longevity* — we choose measurements that we will be able to track over several years, and whose trends will provide valuable information for improving our performance
- *Measurability* — we choose measurements for which we can collect accurate data and form baselines in a timely way

Some measurements track our overall progress towards achieving a goal. Others measure routine operational processes critical to delivering an efficient and effective regulatory system. Given the outcomes-focus of our measurement program, we collect data in a structured way quite different from that of other Canadian regulators. Each year we look for opportunities to benchmark, but to date we have found none: other regulators either track similar data in different ways or collect no comparable data. Of the eight measurements we report on in this section, only three will carry over to our next reporting cycle. Five more will be replaced with measurements we believe better suited to the outcomes they aim to quantify. We discuss why we revised each measurement in the discussion of that measurement. We chart a full review of our measurement data, collection method and frequency, limitations, and controls at the end of this section, on page 42.

CAPACITY /

It is always a challenge to organize our finite staff resources to deal effectively with the most pressing market issues. Extremely active market activity such as we saw throughout fiscal 2007 intensified the challenge on two fronts. As a direct result of a sharp increase in initial public offerings (IPOs), especially in the mining sector, we had to shift staff from continuous disclosure review work to keep up with IPO disclosure reviews. Hot markets during the year also increased the competition for top talent, which brought higher than usual turnover among our senior professional staff. Both effects meant that we completed fewer continuous disclosure reviews than in previous years, despite meeting turnaround targets for those we did complete, as set out in the service standard measurements on page 41.

/ GOAL 1 / Promote a culture of compliance

Investors are better protected if securities firms and issuers of securities understand and comply with their regulatory obligations. A culture of compliance starts at the top with directors and senior management taking their compliance responsibilities seriously and reinforcing compliance throughout the organization.

This is partially achieved by having effective systems and controls in place to ensure compliance. An effective culture of compliance aligns the private interests of market participants with the public interest in a fair, efficient, and reputable securities market. Regulatory intervention should only occasionally be necessary to correct non-compliance. When we perform our compliance function efficiently, compliance costs should decrease for compliant businesses.

During fiscal 2007, we had four strategies supporting this goal and four measurements to track our progress.

STRATEGIES

STRATEGY 1 Assess the level of non-compliance with firm and salesperson suitability obligations

Our work in this strategy focuses on the specific issues inherent in the unsuitable investments risk. We focus on this risk in response to statistics indicating that suitability complaints are routinely the greatest source of investor complaints received by the IDA and the MFDA.

During the year, we analyzed suitability-related complaints made to SROs and the Ombudsman for Banking Services and Investments (OBSI). We also analyzed complaints reported by IDA members through the COMSET (Complaints and Settlements) database. We found no concentration of problems in any particular industry segment, geographic region, or product type. In addition, the overall incidence of complaints was low in proportion to market size and total activity. Nevertheless, following our detailed review of complaints filed in 2005, we decided that we needed to develop regulatory tools to detect suitability non-compliance more quickly. Complaints to the SROs are frequently about transactions that occurred several years previously. Further, we believe suitability problems may be under-reported to regulators because, for example, complainants may not realize their complaint has a suitability element.

In the coming year, we will work with the SROs to develop additional tools to understand and improve suitability compliance.

These will include:

Direct testing of the quality of advice given to retail customers

We looked at the Australian Securities and Investment Commission's work on suitability, which concluded that advice appeared to be fee-driven in one out of every eight cases. We will explore options for conducting a similar review in Canada.

Improving the awareness of investor restitution options such as OBSI

Clients seek restitution for monies lost. In 2005, OBSI recommended some level of restitution to clients in 50% of the securities-related cases. However, many clients learned about OBSI from sources other than their dealers. We will work with the SROs to improve dealer efforts to increase client awareness and understanding of OBSI and what it can do for them. We will also advocate for greater OBSI participation among dealers, especially among scholarship plan dealers.

STRATEGY 2 – Identify and respond to emerging retail investment trends

Our work in this strategy focused on the specific issues in Risk 2: *Investment fads*. Knowing sooner what security types are becoming popular in the retail market allows us to better manage the risks to investors by following up on sales practices and taking action to correct non-compliant issuer disclosure more quickly.

During the year we monitored emerging retail trends and alerted investors about the risks of investing in particular security types. We reviewed offering memoranda and exempt distribution reports to gather information about the types of products issuers were selling. We also explored other sources of trend information. Once we identified a security or security type that was growing in importance in retail portfolios, we chose one of the following four actions:

- Gather information about the selling activity in the security, and take appropriate action against a firm that has not conducted adequate due diligence on the security or given proper suitability advice to clients.
- Assess the underwriting practices of the securities firms that are significantly involved in underwriting the security type.
- Step up our review of issuer offering documents for clear disclosure about the business and key risk factors. If the security type is sold under exemptions, we review the offering memoranda to see if they meet disclosure requirements.
- Educate investors about the types of investments they might not understand well enough to protect themselves and give them the knowledge to critically assess the advertised or promoted benefits. We choose the most cost-effective distribution channels for disseminating relevant and timely information about these security types to investors, focusing on the risks of the investments and the questions they should ask salespersons before they decide to invest.

STRATEGY 1 | Define the nature and severity of continuous disclosure failures

Continuous disclosure obligations for reporting issuers are central to achieving our mission. Issuers that fail to comply with their continuous disclosure obligations pose a risk to investors and the market tools.

Recent disclosure controversies caused us to consider more methodically whether those individual occurrences of late disclosure indicate a pervasive problem. To determine how pervasive late disclosure of material information is among BC-based issuers, we are assessing the timeliness of continuous disclosure by a pilot group of the most significant BC-based issuers. Once we decide an issuer warrants further investigation, we review who within the issuer knew what, when they knew it, and whether the issuer has adequate systems and controls to meet its disclosure obligations.

In cases where we uncover non-compliance and inadequate systems and controls, we act to ensure the issuer takes steps to correct the deficiencies. If untimely or misleading disclosure is a pervasive problem, we design outcomes-based compliance tools to reduce the incidence of the problem among BC issuers. If we uncover serious cases of issuer non-compliance, we may take enforcement action to reinforce our regulatory standards.

STRATEGY 2 | Apply our portfolio of compliance processes to the most important problems

Since we monitor and inspect a very broad range of market activity using finite compliance resources, we constantly seek ways to make our compliance approach more cost-effective. When evaluating our compliance programs, we ask ourselves questions such as:

- Do our compliance tools address the external risks most relevant to our mission?
- Have we selected the compliance tools that maximize cost-effectiveness in managing those risks?
- Do our compliance processes hold securities firms and issuers – and their senior managements – accountable for their compliance decisions?

We chose a few areas where we saw compliance concerns and took a fresh look at which tools would most efficiently make industry participants aware of this compliance issue. During the year, we took further steps towards improving the effectiveness of our regulatory processes in light of these questions. We will continue to use enterprise-wide risk management tools both to more effectively select issuers and securities firms for review and to respond to compliance failures.

MEASUREMENTS | Percentage of reviewed issuers that reduce deficiencies in their continuous disclosure

Our Corporate Finance division reviews issuer disclosure for non-compliance. At the end of each fiscal year, we retain an outside chartered accountant to review the subsequent continuous disclosure of a statistically significant sample of issuers that received comment letters from us during that year. We limit reviews to the non-compliant disclosure documents for each issuer. These could include interim and annual financial statements, management discussion and analysis, or mineral exploration results. The review methodology measures:

- Any year-over-year improvement that demonstrates an issuer took action in response to our compliance efforts
- Whether an issuer's new disclosure materials are compliant

The results of the reviews show the extent to which our disclosure compliance work motivated non-compliant issuers to improve their disclosure voluntarily. This measurement does not gauge compliance for all issuers; it focuses only on the non-compliant disclosure of those issuers we choose to review based on our risk-based selection criteria. We use a different sample of issuers each year.

This measurement always lags by one year because we must wait for the next filing cycle to evaluate improvements from the prior year's disclosure. In May 2008, we will report on disclosure improvements resulting from reviews carried out between April 2006 and March 2007. We are not able to benchmark this measurement against the disclosure compliance work of other jurisdictions because they do not collect similar data. Although we have worked with other jurisdictions to compare our disclosure review programs, the comparison focuses on the regulatory processes for issuer selection and review, not the outcomes of the programs.

STATUS: PARTLY MET — TARGETS AND RESULTS

	04/05 BASELINE	05/06 ACTUAL	06/07 TARGET	06/07 ACTUAL	07/08 TARGET
Percentage of reviewed issuers that reduce deficiencies in their continuous disclosure: *A. Improved disclosure* *B. Improved disclosure to minimum standards*	No data for 04/05	Accounting disclosure: A. 90% B. 84% Mining disclosure: A. 66% B. 47%	Improve on 05/06	Accounting disclosure[1] A. 100% B. 81% Mining disclosure[2]	Accounting disclosure A. 90% B. 85% See next table

1. Our data show that all of the 27 issuers reviewed by our independent accountant improved their accounting disclosure in some areas cited by the BCSC, and 22 of the 27 (81%) improved in all areas.

2. We reviewed the mining disclosure measurement carefully during the year. We concluded that we needed to report on mining disclosure in a way that takes into account the diverse and volatile nature of the industry, which makes it challenging to compare disclosure by the same companies year after year. For this reason, the disclosure review we conducted does not expand on the results reported in 2005/06 but on a 2002/03 study tied to National Instrument 43-101 Standards of Disclosure for Mineral Projects, the primary regulatory standard for mining disclosure.

For this measurement, an independent geologist reviewed the general level of compliance among a representative sample of 26 active mining issuers and compared the results to the 2002/03 study of 20 different active issuers. Our data show that, while there is still considerable room for improvement, the quality of mining technical disclosure has improved dramatically since 2002/03. We will use this new technical data measurement for fiscal 2008 and concentrate our efforts on improving disclosure in the categories where issuers are least compliant.

The following table presents the new measurement criteria and results.

STATUS: MET

TARGETS AND RESULTS

	02/03 BASELINE	06/07 ACTUAL	07/08 TARGET	08/09 TARGET
Percentage of sampled mining issuers that met minimum disclosure standards for the following disclosure types:				
News releases	24%	71%	70%	70%
Annual information forms	35%	70%	70%	70%
Issuer websites	17%	47%	45%	55%
Management discussion and analysis	19%	42%	45%	50%

Percentage of BC-prime reporting issuers on defaulting issuers list

The *Act* requires reporting issuers to file certain information on time, in the required form, and with the appropriate fee. One measurement of a compliant industry is that issuers consistently meet these filing requirements. We routinely put issuers that do not file or pay fees on time on a list of defaulting issuers. We also put an issuer on the list if we decide that a filing is clearly not in the required form.

We track the total percentage of BC-prime reporting issuers on this list during each year. Firms, that in addition to being on the defaulting issuer list also had a cease trade order for more than 90 days, are excluded from the analysis as that pattern suggests the issuer is leaving the market altogether. We expect the percentage of BC-prime issuers that appear on the list each year to decrease over time.

STATUS: MET

TARGETS AND RESULTS

	04/05 BASELINE	05/06 ACTUAL	06/07 TARGET	06/07 ACTUAL	07/08 TARGET
Percentage of BC-prime reporting issuers on defaulting issuers list – 4 categories:			Improve on 05/06		Total issuers equal to or less than
Late filing	16%	17%		18%	23%
Unpaid fees	17%	18.5%		14%	
Inadequate disclosure	20%	21%		20%	
% on list overall	30%	23%		22%	

This year, 22% of BC-prime issuers were placed on the defaulting issuers list at some time during the year, down from 23% the year before. However, the overall incidence of default due to late filings rose slightly.

We believe that timely filing can be an indication of a culture of compliance across all areas. The data we have allows us to see how BC-based issuers compare to other BC-reporting issuers on late filings. The late filing percentage held steady for other BC-reporting issuers while increasing one percentage point for BC-based issuers.

Average number of deficiencies per securities firm examination

Our Capital Markets Regulation division reviews securities firms that are not SRO members for compliance with their regulatory obligations. Using risk-based assessment criteria, we examine a different set of firms each year that pose the highest compliance risk and report results using 57 categories of deficiencies.

Because we conduct risk-based examinations, we place a priority on reviewing firms about which we already have compliance concerns. This measurement therefore uncovers a higher average number of deficiencies than if we reviewed a cross-section of firms. We may further decide in a particular year to review all firms for specific compliance problems, which would raise reported deficiencies in defined areas. To neutralize this bias, we adjust for the results of targeted examination sweeps.

We are not able to benchmark this measurement against other commissions. While they also track deficiencies, no other jurisdiction follows the same system for designing its compliance examination programs and summarizing its examination results this way.

STATUS: MET — TARGETS AND RESULTS

	04/05 BASELINE	05/06 ACTUAL	06/07 TARGET	06/07 ACTUAL	07/08 TARGET
Average number of deficiencies per examination conducted by capital markets regulation staff [1]	6.8/32 categories	6.5/32 categories 7.6/57 categories	< 7.6	7.3	< 6.9

1. Based on 22 examinations in the year ending 2005, 24 in 2006, and 13 in 2007.

Our fiscal 2007 examinations showed an average of 7.3 deficiencies per examination in the 57 categories measured, a decline from 7.6 the previous year. We want to see the overall number of detected deficiencies decline over time as firms correct past deficiencies and reinforce a culture of compliance.

Timeliness and relevance of industry education

We aim to communicate important regulatory information when market participants need it most and design industry education programs to help market participants understand and comply with their regulatory obligations. This measurement was designed to report on industry satisfaction and program relevance based on either in-event or post-event surveys.

During the 2007/10 planning cycle, we reconsidered this measurement as an indicator of compliance improvement and decided to discontinue it in favour of measurements more tightly connected to the aims of our goal to foster a culture of compliance.

STATUS: PARTLY MET — TARGETS AND RESULTS

	04/05 BASELINE	05/06 ACTUAL	06/07 TARGET	06/07 ACTUAL	07/08 TARGET
Timeliness and relevance of industry education					
Percentage of attendees believing time well spent	No data for 04/05	No data for 05/06	80% satisfaction and usage	94% satisfaction	Discontinued
Percentage of attendees applying content				Usage not measured	

We measured satisfaction at two industry education events during the year. At one event, we also asked attendees whether they would be able to apply what they learned; however, we were not successful in structuring a measurement to track whether they did in fact apply the learning.

/ GOAL 2 / Act decisively against misconduct

Decisive action involves receiving and processing complaints and tips about alleged misconduct, conducting surveillance to detect misconduct, investigating suspected breaches of securities laws, and resolving cases through settlements and administrative hearings. We have strong compliance and enforcement processes to respond quickly and appropriately to cases of misconduct.

An effective regulatory enforcement regime is rooted in strategies that focus on protection and prevention. One of our objectives is to intervene earlier and disrupt misconduct to minimize investor losses. We aim to allocate our resources to those cases that will provide the most significant protection to investors and send the strongest deterrent messages. Cost-effective enforcement stems both from how we select and manage enforcement cases and from how we coordinate our enforcement actions with SROs and other regulators.

We had three strategies supporting this goal and two measurements to track our progress.

STRATEGIES / STRATEGY 1 / Disrupt abusive junior market practices in British Columbia

During the year we dedicated resources for this strategy to addressing Risk 3: *Abusive junior market practices*. We were successful in making progress on all our service plan commitments. We:

- Contacted BC issuers that had filed prospectus equivalents in the US to confirm that BC securities laws apply to them and we would enforce those laws. We also increased the number of site visits to these market participants in collaboration with the RCMP Integrated Market Enforcement Team (IMET).
- Resolved legal issues that had previously hampered information sharing with US agencies. This enabled BCSC staff to step up cross-border and inter-agency surveillance, information sharing, and joint enforcement for quicker and more effective action on BC and US securities laws.
- Brought the first-ever cross-border investigation and joint enforcement action on the Greyfield case involving over-the-counter market activity.
- Publicized the Greyfield case via the usual media channels as a way to help maximize the deterrent effect of our actions.

- Developed a comprehensive set of policies to address certain over-the-counter market problems in BC with new tools to regulate the activities of BC-based Over-the-Counter Bulletin Board (OTCBB) issuers. We will consult on implementing these new tools during fiscal 2008.
- Worked with the IDA on issues related to OTCBB trading by their members.
- Encouraged professional bodies for accountants, lawyers, and engineers to take action against their members who engage in abusive practices. This initiative added strength to the calls and site visits our staff made to OTCBB market participants.

STRATEGY 2 – Hold firms accountable through enforcement action

Holding firms accountable for developing, implementing, and monitoring reasonable systems and controls to meet their regulatory requirements is a cornerstone of effective regulation. When our ongoing compliance practices uncover serious cases of firm non-compliance, we take enforcement action to reinforce regulatory standards. We hold the firm's senior management and directors accountable for the compliance failures in appropriate cases.

STRATEGY 3 – Improve efficiency of enforcement processes

We use a range of enforcement tools. In this strategy, we draw attention to projects that improve our efficiency in dealing with significant cases of misconduct. We identified three specific projects for the past year.

1. Staff allocation over the life cycle of a case

Litigators joined investigations earlier with the aim of making the investigations more efficient. We will continue this approach over the coming year as we gain a better understanding of how we can best use litigation time to strengthen the investigation stage.

2. Learning from past cases to improve planning, case timeliness

We now complete two detailed post mortems on each case—one at the end of the investigation phase, and one at the end of the litigation phase. Through these reviews, we gained insights on how to run investigations or litigation better.

3. Reciprocal orders

We believe that the results from settlements or Commission decisions will have a higher deterrent effect if other jurisdictions reciprocate our decisions. We also believe that reciprocating orders from other jurisdictions promote efficiencies in enforcement and protect BC markets and investors by precluding these sanctioned persons from operating in BC. Misconduct is increasingly national or international in scope. We worked with other regulators to improve the process for reciprocating orders across provinces, and internationally.

Acting decisively against misconduct involves detecting the misconduct, choosing the right cases to investigate, and applying a variety of tools to deal with the misconduct. Standard enforcement measurements, including those generally used by CSA members, focus on counting enforcement actions, such as the number of new enforcement cases opened, or settlements reached in a year. Although we report this information, we do not rely on such output measurements in this section because they do not adequately reveal whether we are acting decisively against misconduct. We believe that outcomes-focused measurements will better show our progress in achieving this goal.

MEASUREMENTS / Percentage of cases from external complaints that could have been detected earlier through internal compliance monitoring

In our 2006/09 service plan we undertook to find a more effective measurement for early detection to replace this measurement of external complaints. At the heart of our new measure for early detection for fiscal 2008 is a focus on Commission action to disrupt, stop, and ultimately prevent active misconduct that is reported to us to avoid further investor loss. Disrupting active misconduct is especially important since the amount of money investors lose in illegal distributions tends to increase exponentially over the lifespan of the distribution. We believe the public awareness and outreach aspects of our new InvestRight program will prompt more complaints from investors, the media, and enforcement agencies. In the coming year we will track these leads through a new investor education measure. In our revision of the early detection measurement we will count the cases accepted each year for enforcement action where the misconduct was ongoing when the Commission learned of it. We will then measure what percentage of those cases we acted on by a freeze order, a temporary order, or some other form of formal or informal disruption. This will show how often we take action to stop or disrupt ongoing misconduct.

STATUS: MET — TARGETS AND RESULTS

	04/05 BASELINE	05/06 ACTUAL	06/07 TARGET	06/07 ACTUAL	07/08 TARGET
Percentage of cases from external complaints[1] that could have been detected earlier through better internal compliance monitoring	7%	8%	<10%	7%	Revised

1. We exclude complaints about MFDA and IDA members because we refer most complaints against those members to the SROs.

During 2006/07, 7% of the complaints we received from the public concerned behaviour by market players we oversee through current compliance processes. These cases involved misrepresentations in public disclosure and suspected insider trading on undisclosed information. By contrast, 40% of complaints were about issues that involved neither a reporting issuer nor a dealer. Our new measure will focus on this subset of complaints and tips.

Enforcement time spent on productive action

Timely enforcement is essential to acting decisively against misconduct, yet many processes influence our ability to resolve a case quickly. From conducting investigations to negotiating settlements, conducting hearings, and writing decisions—these stages of enforcement action can consume significant amounts of time and resources that slow down case resolutions or take staff away from other important matters.

During the 2006/09 planning cycle we chose this measurement to indicate increased effectiveness at allocating resources to cases we eventually prosecuted or settled. During the year, we measured litigation and investigation staff-time spent on productive action—that is, on cases where we issued a notice of hearing, entered into a settlement, or closed a case in a timely way. In cases where we closed investigations without action, we assessed timeliness through post-mortem analysis.

We have discontinued this measurement and will report next year on the average life of cases resolved via settlement with the Executive Director or a hearing panel decision. The revised measurement reflects our aim to quickly close cases that cannot move to productive action so we can focus greater resources on cases that can be stepped up to a hearing or settlement.

STATUS: MET — TARGETS AND RESULTS

	04/05 BASELINE	05/06 ACTUAL	06/07 TARGET	06/07 ACTUAL	07/08 TARGET
Enforcement time spent on productive action	No data for 04/05	73%	Improve on 05/06	87%	Revised

For the trackable time we spent on cases closed involving investigations and litigation in the last year, 87% of the total hours resulted in productive action. Much of the actual time enforcement staff recorded in the past year is not included in this measurement because many investigations remain open. In addition, several cases we evaluated opened before we introduced our time reporting system in December 2004, so we do not have tracking for 20% of the days these cases were open.

/ GOAL 3 / Advance smart rule-making and guidance

Regulation inevitably imposes costs through fees, compliance costs, and restrictions on behaviour. Investors ultimately pay these costs: higher costs for public companies mean lower returns for their shareholders; higher costs for securities firms mean higher fees for their clients.

We apply a disciplined, problem-focused approach to dealing with market issues. We define the problem, then select the right regulatory tools for a cost-effective regulatory solution. We apply this approach in responding to both local and national risks and opportunities. As most BC market participants operate nationally, we work closely with the CSA and SROs to streamline and improve the Canadian regulatory system. Investors ultimately pay these costs, so regulatory interventions should generate the greatest investor protection and market integrity benefits for the least cost.

We think that the way to do that is to define problems properly, to choose the right regulatory tools to deal with problems and, when rule-making is a tool we choose, to design rules that address only the defined problem and whose impacts can be measured.

We had two strategies supporting this goal, and one measurement to track our progress.

STRATEGIES

STRATEGY 3.1 Work with government and other regulators to advance smart rule-making and guidance for BC market participants

During the year we continued supporting government and other Canadian securities regulators in their efforts to make the Canadian securities regulatory system more efficient and effective, with emphasis on the passport system and building a national registration rule that will apply to all registrants. Our success in advancing our problem-solving approach in CSA projects has been limited. We hope to increase our participation in key CSA projects and contribute more positively to the development of cost-effective rules that reflect our approach to regulation.

We have developed principles and procedures for providing written guidance to market participants. The role of guidance is to help market participants understand and interpret their regulatory obligations. Guidance does not prescribe the steps they must follow to comply. Market participants make, and are accountable for, their own decisions about how they choose to comply.

During the year, we:

- Trained staff who provide written guidance, and staff who communicate it to industry
- Incorporated aspects of a number of our guidance principles into much of the CSA guidance published during the year
- Did not issue any local guidance; however, we made national guidance more accessible by publishing it using the same system as our other regulatory documents so that industry readers can readily access it from a familiar place

We are committed to developing a system of regulation that is flexible, outcomes-focused, and cost-effective. Rule-making is one tool we use to deal with risks to the market and investors. As part of our effort to make smart rules, we have 13 principles for developing new rules or rule amendments.

The purpose of this measurement was to track the extent to which we applied BCSC rule-making principles when developing new rules. We focused on the last five rules adopted because the number of new rules adopted in a single year varies widely.

During the year we revised the basis of this measurement to better reflect our role in the CSA rule-making process, in which decisions are made by consensus and we cannot always convince our colleagues to follow the BCSC rule-making principles. For this reason, we did not track our success. We revised the scorecard criteria in our 2007/10 service plan to promote cost-effectiveness in the CSA rule-making process.

STATUS: NOT MEASURED — TARGETS AND RESULTS

	04/05 BASELINE	05/06 ACTUAL	06/07 TARGET	06/07 ACTUAL	07/08 TARGET
Average score on BCSC rule-making scorecard for the last five rules implemented	59%	66%	Improve on 05/06	Not measured	Revised

/ GOAL 4 / Educate investors

Investor education strengthens our regulatory system by teaching retail investors how they can protect their financial interests. The types of risks investors face include lack of investment skills and knowledge necessary to make informed investment decisions, vulnerability to fraudulent and abusive investment schemes, and poor financial planning for retirement.

We made significant changes to our investor education activity during the year. In response to our survey of secondary research, and primary research we commissioned with our CSA colleagues, we implemented a province-wide, consumer-friendly investor education program. The InvestRight program teaches investors critical thinking skills so they will look at investment opportunities with healthy skepticism.

InvestRight targets investors with the most to lose: seniors (many of whom are on fixed income) and pre-retirement "boomers". We also recognize the importance of educating youth. We offer a Financial Life Skills resource to teachers who teach Finances to grade 10 students. In the coming year we will continue to broaden awareness of this resource among educators and support them in the use of the materials.

We will continue to make investor education more cost-effective by improving how we get the public's attention, how we choose and work with partners and other regulators to reach investors, and the content of our messages.

Through InvestRight, we expect to increase awareness of the Commission and its role in helping investors protect themselves from investment harm.

We had one strategy supporting this goal and one measurement to track our progress.

STRATEGIES / Strengthen investor education programming

Last year we applied what we learned from our research to get the right information to the right groups of people at the right times. We also committed to ongoing support for the CSA investor education committee and its efforts to deliver investor education across jurisdictions in a more collaborative and cost-effective way.

During the year, we found a compelling case for stepping up our investor education program. The 2005 Eron Mortgage Study of 2,200 investors clearly identified pre-retirement adults as a vulnerable target audience. The 2006 CSA Investor Index, which surveyed more than 7,500 Canadians (including almost 700 people in BC) revealed gaps in investors' knowledge and behaviour that education could address in new ways. As a result, we put aside the

long-standing Investigate Before You Invest seminar series and launched the new InvestRight investor education program.

The CSA research—Canada's first-ever national survey of investors' investment experience and knowledge and their experience and knowledge of fraud—showed that many British Columbians appear to lack the skills and knowledge to prepare themselves financially for retirement. These skills are particularly important as investors take on more of the risk and responsibility of managing their retirement savings, either within or outside a defined contribution plan, a group RRSP, or other retirement savings plan. In the coming year we will reach out to investors saving for retirement by strengthening our public awareness programs

MEASUREMENT 1: Investor retention of key messages

Measuring what investors know about how to protect themselves helps us to demonstrate the effectiveness of our investor education programs. Given our focus during the year on introducing the CSA Investor Index and the InvestRight program, and developing new and existing partnerships, we reduced our seminar program significantly. In addition, our experience with seminars for seniors showed that it is often difficult to get seniors to participate in surveys. As a result, we were not able to gather sufficient data to report on this measure this year.

In fiscal 2008, we have introduced three measures to track our progress towards this goal and are renewing our efforts to set a baseline for measuring what investors retain and apply after attending an InvestRight seminar.

STATUS
NOT MEASURED

TARGETS AND RESULTS

	04/05 BASELINE	05/06 ACTUAL	06/07 TARGET	06/07 ACTUAL	07/08 TARGET
Investor retention of key messages by follow-up surveys	No data for 04/05	Percentage of respondents knowing: - All three main messages: 63% - At least three red flags of fraud: 67% - At least three due diligence techniques: 33% - Commission doesn't recover investor losses: 92%	Improve on 05/06	Not measured	Revised criteria

Service standard measurements

We have two service standards to track turnaround times for exemption applications, prospectus reviews, and salesperson registrations. We use these to hold ourselves accountable to industry for key regulatory processes where timeliness on our part is important to the businesses of our stakeholders. These service standards are a few of the key performance indicators set by division to measure our service and efficiency for incentive purposes.

	04/05 BASELINE	05/06 ACTUAL	TARGET	06/07 ACTUAL	07/08 TARGET
SERVICE LEVEL MEASUREMENT 1					
Days to complete local routine exemption applications	No data for 2004/2005[1]	93% in 20 working days	80% in 20 working days[2]	87% in 20 working days	Discontinued
SERVICE LEVEL MEASUREMENT 2					
Days to first comment letter for BC-prime, MRRS prospectuses	91% in 10 working days	96% in 10 working days	90% in 10 working days	92% in 10 working days	Discontinued

1. Data collection started during the 04/05 reporting period.
2. Based on small numbers of applications (11 in the most recent six months).

Service standard for exemption applications

In certain cases described in the *Act*, market participants can apply to the BCSC for an exemption from securities laws. We consider various factors before deciding whether to grant the relief, including whether granting would be prejudicial to the public interest. We recognize that our response time matters to industry, as service delays in the period before the Commission makes a decision can unnecessarily restrict the activities of market applicants.

We will measure the percentage of routine exemption requests we complete within 20 business days. Our target service level is to complete 80% within that 20-day period.

Service standard for prospectus reviews

When BC-prime public firms raise capital by prospectus, the BCSC must issue a receipt for the prospectus before the issuer can complete their offering. To facilitate these normally time-sensitive offerings, we must complete our work efficiently. We have set a clear service standard for timeliness of issuing receipts so issuers know what to expect.

We aim to send initial comment letters to issuers within 10 business days 90% of the time.

Given the purpose of the annual reporting process, in which we report on our progress towards meeting the Commission's strategic priorities, we will not include these service standard measurements again.

REVIEW OF PERFORMANCE MEASUREMENT SYSTEMS FOR EACH 2006/07 MEASUREMENT

DATA SOURCE	DATA COLLECTION METHOD	DATA COLLECTION FREQUENCY	DISCLOSURE OF ANY LIMITATIONS TO THE ACCURACY AND RELIABILITY OF THE DATA	DATA TIMELINESS	DATA CONTROLS
MEASUREMENT 1.1: CONTINUOUS DISCLOSURE REVIEW					
Independent evaluation against criteria set by BCSC staff	Manual submission of reviewer's report	Collected annually	Measurement relies on objective professional judgment of disclosure quality	Measures work done 12-24 months before the report: issuers cited by the BCSC from April 2006 to March 2007 will be reported on in May 2008	Electronic system creates list of issuers with significant deficiencies Reviewer then randomly selects issuers from the list to assess
MEASUREMENT 1.2: COMPLIANCE WITH FILING REQUIREMENTS					
Internal database	Manually compiled	Collected continually; only relevant as a measurement at year-end	Firms who proceed to delist can still be captured in this measure An issuer can be in default between week-to-week list publications, and would be omitted from this measurement	Measurement reflects firms on defaulting list at some point during fiscal year	Internal control environment
MEASUREMENT 1.3: AVERAGE NUMBER OF DEFICIENCIES PER SECURITIES FIRM EXAMINATION					
Data entered manually based on exam deficiency letters	Data comes from a manually-updated Excel spreadsheet, and is adjusted for targeted reviews	Collected at year-end	Measurement relies on our classification of compliance problems, which can change every year Small data set Measurement relies on judgment of evaluators	Measurement reflects data from exam letters sent during annual reporting period	Internal control environment
MEASUREMENT 2.1: EARLY DETECTION OF MISCONDUCT					
Underlying data comes from internal computer systems Additional data created manually	Collected manually	Collected at calendar year-end	Measurement relies on professional judgment Small data set	Measurement reflects cases opened in a calendar year	Internal controls for records kept in regular course of business
MEASUREMENT 2.2: EFFECTIVE ALLOCATION OF ENFORCEMENT RESOURCES					
Time data comes from internal computer system Case results come from manual management tracking sheet	Time data computer generated, and then manually paired with case outcome and management categorization	Collected at year-end	Management judgment required for categorizing case Measurement does not track all time within a given year; cases come into the measurement once they are closed or move to litigation	Measurement reflects cases closed in investigations or litigation in a calendar year Measurement reflects all time spent on these cases	Internal controls for records kept in regular course of business
SERVICE LEVEL MEASUREMENT 1: SERVICE STANDARD FOR EXEMPTION APPLICATIONS					
Internal computer systems	Computer generated list, cleaned to remove non-routine applications	Collected quarterly	Measurement relies on professional judgment Market demand may result in small measurement base in any given year	Measurement reflects exemption applications completed during reporting period	Internal control environment
SERVICE LEVEL MEASUREMENT 2: SERVICE STANDARD FOR PROSPECTUS REVIEWS					
Cases and service days tracked on internal computer system	Computer generated list, adjusted to remove non-prime firms	Collected quarterly	No significant limitations on this measurement	Measurement reflects data for first comment letter sent over annual reporting period	Tracking system does not permit backdating, so measurements, if anything, will reflect longer than the process took Fully automated link to new cases

enforcement /

Enforcement

A credible enforcement program is a powerful tool to ensure compliance and deter inappropriate and illegal market conduct and to send a strong message to the market and public.

We receive complaints and information from a wide variety of sources: investors, securities industry participants, other regulatory and enforcement agencies and the BCSC divisions that monitor market conduct and disclosure.

Results of the 2006 CSA Investor Index research showed that only 14% of people who are aware of a fraudulent investment actually report it to the authorities. In response to this new information, we developed an outreach program with the RCMP to emphasize how important it is to report any suspicious investment activities.

Enforcement staff also participate in RCMP investigator fraud courses to ensure that officers understand how the BCSC can assist them with investment-related investigations and how to refer cases. We also use our InvestRight education program to encourage investors to report any suspicious investment activities to the Commission by phone, email, or reporting forms on the InvestRight website.

Last fall, we launched a new program called InvestRight RED ALERTS to try and disrupt, stop, and ultimately prevent illegal investment activities. Our communication and education staff work with enforcement staff to issue RED ALERTS either province-wide or in specific communities. During the first year, we issued three RED ALERTS to the media and to local enforcement agencies and posted them on the InvestRight website.

Enforcing the *Act* is one of the most important ways we can fulfill our mission to ensure fair and efficient capital markets that warrant public confidence.

HOW WE IDENTIFY AND INVESTIGATE POSSIBLE MISCONDUCT

The BCSC's process for dealing with misconduct starts with the Intelligence and Assessment branch. We handled 197 complaints last year. Many of these represented multiple violations including:

- 76 related to unregistered activity
- 52 related to illegal sales of securities
- 30 related to fraud
- 37 related to registrant misconduct
- 48 related to director and officer misconduct
- 40 involving misrepresentations
- 34 related to insider trading
- 51 involving civil disputes outside our mandate

The Intelligence and Assessment branch handles files in different ways, depending on the circumstances. We can pass a file to another regulator or law enforcement agency, resolve it through staff action such as a caution letter, or refer it to our investigation branch. Sometimes the branch closes files without taking action if, for example, we decide it is not in the public interest to pursue the matter. The branch might also refer a complaint to the BCSC's Capital Markets Regulation or Corporate Finance division if it involves conduct by a registrant or public company that does not warrant enforcement action.

LEGAL PROCESSES FOR HANDLING CASES OF MISCONDUCT

When a BCSC investigation yields evidence that supports allegations of misconduct, the Executive Director can issue a notice of hearing to commence an enforcement proceeding. A person who is the subject of allegations can agree to a negotiated settlement with the Executive Director. In a settlement, the person admits to misconduct and consents to an enforcement order, a financial payment, or other appropriate remedy. If a settlement cannot be reached, then a panel of commissioners conducts a hearing to decide whether the Commission will uphold the allegations and make any enforcement orders.

We publish all notices of hearing, orders, and Commission decisions and settlements on the BCSC website. A person sanctioned in a Commission decision can ask the British Columbia Court of Appeal to review it. That person or the Commission can also ask the Supreme Court of Canada to review a decision of the appeal court.

How the BCSC handles enforcement cases

THE ENFORCEMENT PROCESS STARTS WITH:

- A complaint from an investor or securities industry participant
- A referral from another agency
- Intelligence and Assessment branch
- A referral from another BCSC division

THE BCSC'S ASSESSMENT UNIT REVIEWS EACH COMPLAINT OR REFERRAL AND CAN THEN:

- Resolve and close the file with a caution letter
- Refer it to another agency, for example, a criminal case would be referred to a law enforcement agency
- Refer it to the BCSC's Investigation branch
- Refer it to the BCSC's Capital Markets Regulation division or Corporate Finance division if it involves a registrant or public company

AFTER INVESTIGATING A CASE, THE INVESTIGATION BRANCH CAN:

- Resolve and close the file with a caution letter
- Refer it to the Litigation branch
- Resolve it through a negotiated settlement with the BCSC Executive Director

THE LITIGATION BRANCH REVIEWS EACH CASE AND CAN:

- Pursue it through a hearing before a panel of BCSC commissioners
- Resolve it through a negotiated settlement with the BCSC Executive Director

In steps 2, 3, and 4 the BCSC can close the file without action if there is insufficient evidence or it is not in the public interest to pursue it.

We began the year with 11 notices of hearing outstanding. At year-end, we had 13 notices of hearing outstanding. Here is the enforcement activity beginning April 1, 2006:

- 11 notices of hearing
- 1 decision finding liability, with sanction pending
- 1 sanction (reciprocal order)
- 20 settlement agreements
- 5 matters withdrawn or no contravention found

We post all decisions and settlements in the enforcement section of our public website, where they are searchable by name and keyword.

SETTLEMENTS // *Martin Browne, Dominic Busto, and Elliot Kagna*

Martin Browne, Dominic Busto and Elliot Kagna worked as registered representatives at Union Securities Ltd. in Vancouver.

The three representatives admitted in settlements with the Commission that they failed to learn essential facts about some clients they dealt with who held US dollar accounts at Union from 1999 to 2001. They failed to learn such facts as the identity, credit worthiness, and reputation of these clients contrary to requirements under securities rules. None of these clients or the individuals who gave trading and other instructions on the accounts were residents of Canada. The accounts traded primarily securities listed or quoted on the OTCBB quotation system in the US.

In settlements with the Commission, Browne, Busto and Kagna each agreed to pay the Commission $50,000. Busto and Kagna, who continue to work at Union, are subject to close supervision for two years. They must successfully complete conduct and practices coursework within six months of the order. Browne left Union in March 2002 and is no longer a registered representative. He cannot apply for registration for at least three years and must complete conduct and practices coursework before he can reapply.

Kelly Michael Doherty and Melvin George Fiessel

Fiessel and Doherty were Kamloops, BC residents who took control of Greyfield Capital Inc., a Nevada company whose securities traded through the Pink Sheets. After Fiessel and Doherty illegally took control of Greyfield, they distributed shares in the company and made misrepresentations about Greyfield and its shares on online investor forums, press releases, and the company's website.

In a settlement with the Commission, Fiessel admitted that he sold millions of unauthorized Greyfield shares into the public market and that Greyfield's public disclosure was materially false or misleading. The two admitted that they acted with deliberate or reckless disregard of a regulatory requirement in the US and contrary to the public interest in BC.

In settlements, Fiesel agreed to pay $144,445. In addition, Fiessel and Doherty resigned all positions they held and were permanently prohibited from acting as a director or officer of any issuer. Both received permanent bans from engaging in investor relations activities and from trading in securities, except on a restricted basis.

Both Fiessel and Doherty agreed to pay to the SEC sums representing the profits and compensation made in selling the Greyfield shares for distribution to those who purchased the securities. The settlements were the results of coordinated, parallel investigations with the SEC.

Cameron Kuipers, Ultimate Investments Inc., and Cameron Kuipers

Cameron Kuipers, a BC resident, was president, director, and sole owner of Ultimate Ventures Inc., a Kelowna-based company, and Trivera Investments Inc., headquartered in Vancouver. The two companies were in the business of purchasing life insurance policies from elderly and terminally ill people for a percentage of their face values in exchange for assuming the obligation to pay the premium.

During 2001-2003, Ultimate and Kuipers raised about $2.7 million from 47 investors in Canada and about US $1.1 million from 20 US investors. Ultimate and Kuipers illegally exchanged Ultimate securities for investors' life insurance policies and other securities. During the same years, Trivera and Kuipers illegally raised about $276,214 from 11 investors mostly from BC. Trivera and Ultimate ignored cease-trade orders issued by the Commission in December 2002 by issuing some of the Trivera and Ultimate securities. Kuipers also violated securities laws by acting as an adviser without registration and made misrepresentations about the investment in Ultimate securities, including the use of investors' funds as did Ultimate and Trivera.

The Commission banned Kuipers from trading in securities for at least 16 years, except in limited circumstances. He cannot act as a director or officer of any company or engage in any investor relations activities for at least 16 years. The Commission also banned Ultimate and Trivera from trading in the securities market for 16 years.

Exotics.com Inc., Firoz Jinnah, and Hans W. Mueller

Firoz Jinnah was the president and sole director of Exotics.com Inc., a Nevada-incorporated company headquartered in Vancouver, with its shares trading on the OTCBB trading system. Jinnah was also the general manager of St. George Capital Corp., a company that provided management and other services for Exotics. Jinnah reported to Mueller who was the president and sole director of St. George Capital and the guiding mind behind Exotics.

Jinnah and Mueller issued news releases, faxes, and email alerts containing materially false or misleading statements or omissions of material fact about Exotics' revenue in 2001. The company's share price and trading volume increased after they issued these notices. Exotics also made misleading statements in financial statements filed with the SEC. It did not correct the misrepresentation in a timely manner after the SEC discovered the misleading information.

In settlements, Jinnah agreed to pay $25,000 and Mueller agreed to pay $40,000.

The Commission banned both men from being directors or officers of any company, except in limited circumstances. Neither can engage in any investor relations activities for at least 18 months in Jinnah's case and 36 months for Mueller.

Lionel Marvin Negus, Christopher John Thompson, Kevin Wilson, and Parklane International Corporation

Lionel Negus and his son Christopher Thompson promoted the sale of securities of Syndicated Gold Depository SA (SGD), a company purported to be incorporated and located in the Bahamas. They did this from their West Vancouver homes through Parklane International Corp., an offshore company hired by SGD to sell securities for which SGD paid Parklane US $1.8 million in fees. Between 2000 and 2004, Negus, Thompson, and Parklane distributed SGD securities to 64 investors who invested US $11.5 million. Most of the investors were US residents, only three were Canadian. Negus, Thompson, and Parklane violated securities laws by distributing US $1.66 million of SGD securities without proper registration and without filing a prospectus.

Parklane and the two men admitted to violating securities laws by making misrepresentations in their promotional material and personal communication to investors and potential investors. In settlements, Negus and Thompson agreed to pay the Commission $75,000 and $100,000 respectively. The Commission banned Negus and Thompson from trading securities, being directors and officers of any issuer, and from engaging in any investor relations activities for 15 years and 20 years, except in limited circumstances. The Commission cease-traded Parklane and permanently prohibited it from engaging in any investor relations activities.

Kevin Wilson of Vancouver assisted Negus, Thompson, and Parklane in trading securities without registration and distributing securities without filing a prospectus as required under securities law. In a related settlement, the Commission banned Wilson from trading securities except in limited circumstances for 10 years. Under the settlement, the Commission banned Wilson from acting as a director or officer of any issuer or engaging in any investor relations activities for 10 years.

John DeVries, Ernest (Bud) Grafke, Ralph Bromley and Wesley Campbell

John DeVries, a Turks and Caicos resident, established Amber Enterprises to allow people to invest in IPIC Investments, a California-based operation. IPIC supposedly ran an import-export business. After US regulators raided it they discovered it was a Ponzi scheme and a receiver took over its affairs. John DeVries was president, secretary and sole shareholder of Amber.

Ernest Grafke was a Texas pastor who introduced DeVries to Gregory Setser, a former pastor who ran IPIC. Grafke oversaw the production and dissemination of information materials to potential investors in Amber. Ralph Bromley is a former pastor and Wesley Campbell is a co-founder and former pastor at Kelowna-based New Life Church. Bromley is President of Hope for the Nation, a registered charitable organization whose staff includes members of New Life Church. Several of the investors in Amber were members of New Life Church, affiliated churches or regular contributors to Hope for the Nation.

DeVries, Grafke, Bromley, and Campbell admitted that they directly or indirectly got BC residents to invest in securities of Amber Enterprises without being registered and without filing a prospectus as required under securities laws.

In settlements, DeVries and Grafke agreed to consent to an order by the Supreme Court of British Columbia enabling the BC Civil Forfeiture Office to provide $500,000 restitution to BC Amber investors. The Commission will forward the monies collected from the two men to the BC Civil Forfeiture Office once the court issues the consent order. The Commission banned Devries and Grafke from the BC capital markets for 17 and 15 years, respectively. Bromley agreed to pay $9,000. The Commission banned him from capital markets for five years, except in limited circumstances. Campbell received a two-year ban from the capital markets, except in limited circumstances.

Investpro Riemens Enterprises

Riemens raised $1.9 million from investors, mostly in BC, Ontario and Quebec, through trading and distributing securities in Investpro Real Estate Purchasing and Sales Ltd. He did this, contrary to the *Act*, without proper registration to trade securities and without filing a prospectus. Investpro was purported to be a division of Riemens Enterprises Ltd. Riemens was the founder and only director of both companies.

Riemens also violated the *Act* when he made misrepresentations in promoting investment in Investpro securities through presentations, brochure and website information.

In a settlement, the Commission banned Riemens from trading securities for 10 years, except in limited circumstances. Riemens cannot engage in any investor relations activities and is prohibited from being a director or officer of any issuer for at least 10 years.

Daryl Joseph Klein and Kleincorp Mgmt. Inc., doing business as Insta-Cash Loans, and Douglas Arnold Clarke and Bick Financial Services Inc.

Daryl Klein was the president and a director and officer of Kleincorp Mgmt. Inc., which operated as Insta-Cash Loans—a pawn-broking business headquartered in Nanaimo with branches throughout BC. Douglas Clarke operated Bick Financial Services Inc. and beginning in 2001 through Bick, he solicited investors to put money into Kleincorp.

Between 1998 and 2006, Klein and Kleincorp raised $14.8 million from at least 54 investors (one of these investors was Bick). Clark raised $4.4 million of the total invested in Kleincorp by soliciting funds from 225 investors, mostly in BC. Kleincorp used these funds to make loans to its pawn-broking clients, to pay for its operating expenses, and to pay back principal and interest to investors. During this time, Klein did not prepare financial statements and was under the false impression that Kleincorp was a profitable business. Payments to investors stopped between 1998 and 2005 and by the end of 2005, Kleincorp owed investors $17 million.

In settlements with the Commission, Klein and Clarke admitted that they violated securities laws by trading securities without being registered and distributed securities without filing a prospectus. Clark also admitted to violating securities laws through unregistered advising and making misrepresentations about Insta-Cash Loans in a brochure he sent to potential investors.

In settlements, the Commission banned Klein and Clarke from buying or selling securities, except in limited circumstances. They cannot act as directors or officers of any issuer nor engage in any investor relations activities for 20 years.

HEARINGS / *Foresight Capital Corp., Gilbert Kenneth Wong, and Jill MacGregor Bock*

Jill MacGregor Bock, a former Vancouver-based securities salesperson, violated securities rules when she failed to ensure that certain speculative and illiquid investments were suitable for her clients. Bock sold exempt investments to certain clients while she was employed by Foresight Capital Corp., a now-defunct investment dealer that was headquartered in Burnaby. Bock worked for the firm out of her Vancouver office from 1998 to 2001.

A Commission panel upheld allegations that Bock violated securities rules when she failed to ensure certain speculative and illiquid investments were suitable for her clients, but dismissed allegations of misrepresentation. The Commission panel dismissed the allegations against Foresight Capital and Gilbert Wong, who was a director, president, and compliance officer of the firm during the relevant period, with one exception: they found that the firm had not met its working capital requirements for four months in 2002.

The panel has not yet made its sanctions decision.

In September 2006, a Commission panel dismissed allegations that Vancouver-based investment dealer Pacific International Securities Inc. and its directors contravened securities rules and acted contrary to the public interest. The panel concluded that staff had failed to prove the allegations and failed to prove that the firm's directors had not acted reasonably in responding to allegedly suspicious conduct.

In 1995, a Commission panel banned Roeder from BC securities markets for 17 years. The BC Court of Appeal denied him leave to appeal. In 2000, Roeder applied to the Commission to revoke the 1995 order, alleging that the proceedings were tainted by his former counsel's disclosure of confidential information to counsel for the Executive Director. His former counsel had joined the same law firm as counsel for the Executive Director several years after ceasing to represent Roeder. In 2003, the Commission dismissed his application to revoke the 1995 decision for undue delay. The Court of Appeal dismissed Roeder's appeal.

Roeder sued his former counsel, counsel for the Commission, their firm, a member of Commission staff, and the Commission itself in BC Supreme Court over process issues. In 2005, the Court dismissed Roeder's lawsuit on the grounds that it constituted a collateral attack on the Commission's original order and was an abuse of process. In March 2007, the Court of Appeal dismissed Roeder's appeal based on no cause of action for breach of the rules of procedural fairness and abuse of process by re-litigation.

financial report /

Financial report

Management's discussion and analysis of financial position and operating results for the year ended March 31, 2007

We prepared this discussion and analysis of financial position and results of operations of the British Columbia Securities Commission (BCSC) on April 25, 2007. You should read it in conjunction with our audited financial statements and related notes for the year ended March 31, 2007.

These documents are available on our website at www.bcsc.bc.ca.

We prepared the financial information in this report in accordance with Canadian generally accepted accounting principles. We report in Canadian dollars.

Overview

Operations generated a $3.1 million surplus, $3.1 million ahead of budget and $1.8 million higher than fiscal 2006.

Revenues were $3.1 million higher than expected and $2.9 million (10%) higher than 2006 because of strong market activity. Distribution revenues related to mutual fund sales and securities issued under prospectus exemptions were particularly strong.

Expenses were $28.5 million, as expected, and $1.1 million (4%) higher than fiscal 2006. Professional fees and salaries were higher than expected, but offset by lower than expected training, information management, and travel costs, as follows:

- Professional fees were higher than expected because we retained legal counsel to pursue collections of amounts owing to the Commission and because we hired a recruiting firm to help us fill a senior management position.
- Higher than expected salaries and benefits costs were only partly offset by a higher than expected number of vacancies.

We aim to break even. This is difficult because our revenues fluctuate in proportion to market activity, while most of our costs are fixed. Securities market participants fund our operations through fees they pay under the *Securities Act*. Salaries, benefits, and occupancy costs account for about 80% of our expenses. As a government agency, we are exempt from income taxes and the GST.

Temporary fee reductions and lower market activity significantly reduced fiscal 2003 and 2004 revenues. Market activity increased in fiscal 2005, and has since been strong.

The following table summarizes actual and expected results of operations and financial position by fiscal year:

	PAST				PRESENT				FUTURE
	2003	2004	2005	2006	2007				2008
millions	AUDITED	AUDITED	AUDITED	AUDITED	AUDITED	VS. 2006	BUDGET	VS. BUDGET	BUDGET
OPERATIONS									
Revenues									
Filing fees									
Prospectus and other distributions	8.6	11.6	13.3	14.7	16.3	1.6	14.1	2.2	15.3
Registration	6.2	4.9	8.1	8.4	8.7	0.3	8.6	0.1	9.0
Financial filings	1.8	4.5	4.7	4.6	5.0	0.4	4.4	0.6	4.5
Other fees	0.6	0.6	0.5	0.5	0.5	-	0.5	-	0.4
	17.2	21.6	26.6	28.2	30.5	2.3	27.6	2.9	29.2
Other revenues									
Enforcement cost recoveries	0.1	0.1	0.3	0.1	0.3	0.2	0.2	0.1	0.2
Investment income	0.8	0.7	0.4	0.4	0.8	0.4	0.7	0.1	0.8
	18.1	22.4	27.3	28.7	31.6	2.9	28.5	3.1	30.2
Expenses									
Salaries and benefits	19.5	19.5	19.7	20.2	21.2	1.0	21.1	0.1	22.6
Other operating expenses	8.2	7.6	7.0	7.2	7.3	0.1	7.4	(0.1)	7.6
	27.7	27.1	26.7	27.4	28.5	1.1	28.5	(0.0)	30.2
Operating (deficit) / surplus for the year	**(9.6)**	**(4.7)**	**0.6**	**1.3**	**3.1**	**1.8**	**-**	**3.1**	**-**
EDUCATION RESERVE									
Education revenues									
Penalties and designated amounts	0.3	0.4	0.9	0.7	1.4	0.7	0.5	0.9	0.5
Investment income	0.1	0.1	0.1	0.1	0.1	-	0.1	-	0.1
	0.4	0.5	1.0	0.8	1.5	0.7	0.6	0.9	0.6
Education reserve disbursements	0.2	0.8	2.1	1.2	0.6	(0.6)	0.7	(0.1)	0.6
Education reserve surplus / (deficit) for the year	0.2	(0.3)	(1.1)	(0.4)	0.9	1.3	(0.1)	1.0	-
Consolidated surplus / (deficit)	(9.4)	(5.0)	(0.5)	0.9	4.0	3.1	(0.1)	4.1	-
Accumulated surpluses									
General (including contributed)	4.6	-	0.7	1.7	3.8	2.1	0.9	2.9	3.8
Fee stabilization reserve	12.0	11.8	11.8	12.0	13.0	1.0	13.0	-	13.0
Education reserve	4.2	3.9	2.8	2.4	3.4	1.0	2.4	1.0	3.4
	20.8	15.7	15.3	16.1	20.2	4.1	16.3	3.9	20.2
Supplementary information									
Fee revenue[1] (before temp. reductions)	23.9	24.9	26.9	28.5	30.8	2.3	27.9	2.9	29.5
Fee revenue growth rate	-6%	4%	8%	6%	8%		-2%		-4%
Average FTEs	206	204	193	191	189	(2)	190	(1)	200
Operating expense growth	3%	-2%	-1%	3%	4%		4%		6%
Capital additions	0.8	0.8	0.4	0.3	0.2	(0.1)	0.5	(0.3)	0.9

1. A firm registration fee holiday for MFDA members, with a $0.3 million / year impact, ends in fiscal 2010.

REVENUES

Our revenues consist of:

- Fee revenues - filing, registration and application fees paid by securities market participants
- Enforcement revenues - hearing cost recoveries and amounts designated under settlements as cost recoveries
- Investment portfolio income

We discuss education reserve transactions separately, starting on page 64.

Fee Revenues

Almost all of our operational funding comes from filing fees paid by market participants. We collect:

CATEGORY	SOURCE	% OF FEE TOTAL FISCAL 2007	% OF FEE TOTAL FISCAL 2006
Distribution fees	Paid by securities issuers when they file disclosure documents	53.4%	52.3%
Registration fees	Paid by firms and individuals to register with us to sell or advise on securities	28.4%	29.6%
Financial filing fees	Paid by public companies when they file annual and quarterly financial statements	16.5%	16.4%
Other fees	Paid by market participants, primarily to request exemptions from *Securities Act* requirements	1.7%	1.7%

Our fee revenues fluctuate with market activity. We are most dependent on fees paid by mutual funds to distribute securities and file their financial statements with us, and on fees paid by the five largest Canadian banks to register their representatives with us. Mutual funds contributed about $9.7 million, or about 32% (fiscal 2006 – $8.8 million, or 31%) of period fee revenue.

Distribution fee revenues vary depending on the number and size of offerings completed in each year, and revenues are higher during stronger markets. The remaining fee categories have exhibited lower volatilities and have grown slowly over the last several years.

- Distribution fee revenue increased 11% ($1.6 million), primarily due to fees related to strong mutual fund sales.
- Registration fee revenue, driven mostly by the number of registered advisors, increased 4% ($0.4 million).
- Financial filing fees increased 9% ($0.4 million) due to stronger market activity.

Enforcement revenues are comprised of hearing cost recoveries and amounts designated under settlements as cost recoveries; they are unpredictable. Revenues depend on the timing of enforcement actions we complete during a period and on our ability to collect assessed amounts.

Collecting enforcement revenues can be difficult because respondents often have limited assets, have poor credit, or have left British Columbia. We recognize administrative penalties and designated settlements after we issue a decision or reach an agreement and determine the amounts are collectible.

Enforcement revenue increased $0.2 million (330%) because of a large settlement with a registrant.

Since our incorporation on April 1, 1995, we have collected $11.9 million (48%) of $24.7 million sanctioned. We pursue outstanding amounts, which totaled $12.8 million on March 31, 2007 (March 31, 2006 - $12.9 million), vigorously and indefinitely.

Our portfolio generates modest returns because we invest conservatively. Investment income increased about 80% to $0.8 million (fiscal 2006 - $0.4 million). Our average portfolio balance relating to operations and our portfolio rate of return both increased.

FISCAL	INVESTMENT INCOME ('000s)	AVERAGE PORTFOLIO BALANCE RELATED TO OPERATIONS ('000s)	RETURN
2007	780	18,606	4.2%
2006	435	15,610	2.8%

Significant operating revenue variances

Revenues were $3.1 million higher than expected and $2.9 million higher than fiscal 2006, mostly because of strong market activity impacting our distribution fee revenues, primarily due to an increase in filing fees related to mutual fund sales. Most significantly:

VARIANCE	VS. BUDGET	VS. 2006
We expected prospectus revenues to decline for fiscal 2007 after strong activity in 2006. Instead, market activity increased further in 2007 and we experienced a 16% increase in prospectus[2] filing revenues. Most of the increase is due to fees related to mutual fund sales.	+ $1.0 million	+ $1.6 million
We expected non-prospectus[3] (exempt market) distribution fees to decrease $0.8 million (27%) to the historical average of $2.1 million after experiencing higher than average activity in fiscal 2006. Fees did not decrease.	+ $0.8 million	–
We expected annual information form (AIF) fees to decrease $0.3 million (20%) after introducing policy changes that eliminate AIF filing requirements for some issuers. Fees actually increased $0.1 million (5%) because some filers adopted a rule change enabling them to complete prospectus offerings more quickly and cheaply if they have a current AIF.	+ $0.4 million	+ $0.1 million
We expected registration revenues to increase 3% due to increased market activity. Registration[4] fees actually increased $0.4 million (4%).	+ $0.1 million	+ $0.4 million
We expected financial filings revenue to decrease 5% after an increase in 2006 caused by a change in filing patterns. Financial filings revenue actually increased $0.4 million (9%) because the number of reporting issuers[5] increased.	+ $0.7 million	+ $0.4 million
Enforcement revenues are highly volatile. We budgeted for the five-year average.	+ $0.1 million	+ $0.2 million
Investment income increased more than expected.	+ $0.1 million	+ $0.3 million
Other small variances, net	– $0.1 million	– $0.1 million
Total revenue variances, 11% of budget	+ $3.1 million	+ $2.9 million

2 Companies are normally required to prepare a prospectus before raising money from the public. A prospectus gives details of the operations, financial status and management of the company.

3 Prospectus exemptions allow companies to sell securities without a prospectus when other factors (like relationship or financial sophistication) ensure investors have access to all information about the proposed transaction that could affect their purchase decision.

4 Firms and individuals that sell securities must register with us every year.

5 In general, we require entities with exchange-listed securities to file financial statements with us.

We discuss Education Reserve transactions separately, on page 64.

We are committed to managing our expenses so they do not exceed expected revenue over the business cycle. We do this by:

- Preparing an annual budget approved by the Commission
- Reporting actual-versus-budget experience to management every month
- Requiring Commission approval of significant expenses
- Continually improving the efficiency of our processes

Five-year average operating expense growth was 1%.

Expenses were $28.5 million, as expected, and $1.1 million (4%) higher than fiscal 2006. Professional fees and salaries were higher than expected, but offset by lower than expected training, information management, and travel costs.

We averaged the equivalent of 189 full-time staff during the year (fiscal 2006 – 191). Staffing costs are almost 75% of our operating expenses, and annual, performance-based salary increases drive most of our non-project expense growth. We compete for professional staff with law and accounting firms, the securities industry and other regulators. Like most of our competitors, we offer a compensation package that includes performance-based incentives. To remain competitive, we conduct annual salary surveys and make adjustments as appropriate.

We focus staff effort (with overhead allocated proportionately) on our strategic goals:

	STRATEGIC GOAL	FISCAL 2007	FISCAL 2006
Goal 1	Promote a culture of compliance	33%	33%
Goal 2	Act decisively against misconduct	42%	42%
Goal 3	Educate investors	9%	8%
Goal 4	Advance cost effective regulation	16%	17%

Salaries and benefits costs were higher than expected because higher vacancies only partly offset higher severance and a capital payment for loss of statutory office.

REMUNERATION SUMMARY

POSITION	NAME	APPOINTED	TERM END	BASE SALARY[6]	OTHER CASH BENEFITS[7]	OTHER NON-CASH BENEFITS[8]	TOTAL FISCAL 2007	TOTAL FISCAL 2006	MEETINGS ATTENDED[9]
EXECUTIVE COMMISSIONERS									
Chair	Hyndman, Doug	Apr. '87	N/A	$ 328,173	$ 155,877	$ 47,459	$ 531,509	$ 516,380	12
Vice Chair	Aitken, Brent	Oct. '95	N/A	$ 267,600	$ 0	$ 7,317	$ 274,917	$ 295,147	9
Vice Chair	Salvail-Lopez, A.	Nov. '92	Nov. '06	$ 248,723	$ 588,200	$ 37,001	$ 873,924	$ 292,523	5
Commissioner	Ford, Robin	Jul. '04	Jul. '08	$ 220,095	$ 34,873	$ 29,330	$ 284,298	$ 272,497	12
INDEPENDENT COMMISSIONERS									
Commissioner	Alexander, Neil	Mar. '02	Mar. '08	$ 48,600	$ 0	$ 2,208	$ 50,808	$ 26,358	12
Commissioner	Brockman, Joan	Mar. '98	May '06	$ 4,400	$ 0	$ 233	$ 4,633	$ 36,230	1
Commissioner	Foreman, Marc	Mar. '02	Mar. '08	$ 25,450	$ 0	$ 1,167	$ 26,617	$ 41,696	12
Commissioner	Graf, John	Dec. '98	Mar. '08	$ 70,250	$ 0	$ 1,731	$ 71,981	$ 43,894	10
Commissioner	Hanna, Kenneth	Jul. '06	Jul. '09	$ 26,250	$ 0	$ 0	$ 26,250	-	7
Commissioner	Milbourne, Robert	Mar. '02	Mar. '08	$ 55,700	$ 0	$ 694	$ 56,394	$ 53,265	12
Commissioner	Smith, David	Jul. '06	Jul. '09	$ 23,950	$ 0	$ 0	$ 23,950	-	7
Commissioner	Wiltshire, Suzanne	Jul. '06	Jul. '09	$ 28,025	$ 0	$ 1,323	$ 29,348	-	8
Commissioner	Wares, Roy[10]	Mar. '98	Sep. '06	$ 52,475	$ 0	$ 204	$ 52,679	$ 66,618	1
SENIOR MANAGEMENT									
Executive Director	Leong, Brenda	Oct. '04	N/A	$ 235,442	$ 84,560	$ 38,920	$ 358,922	$ 328,245	N/A

6 Base salary includes honoraria, regular base, vacation and sick leave pay.

7 Other cash benefits normally include performance-based incentives and transportation allowances. The amount paid to Adrienne Salvail-Lopez includes a $575,000 capital payment for loss of statutory office.

8 Other non-cash benefits include amounts we paid on behalf of these members and employees and include pension, long-term disability, health and dental plan, Canada pension plan, employment insurance premiums, parking and professional membership fees.

9 The Commission scheduled and held 12 meetings during the year.

10 Appointment ended May 1, 2006. His authority to exercise powers in an enforcement proceeding was extended until the panel's final decision on September 12, 2006.

Professional services

We contract third party professional services when it is not cost-effective, or when we do not have the skills, to perform the work ourselves. We use a legislative drafter seconded from the Attorney General and sometimes engage outside legal counsel to represent us in legal matters. We contribute to national project costs. Other significant components of professional service expense are transcription, business continuity facility stand-by charges, internal, and external audit costs.

Professional fees were higher than expected because we retained legal counsel to pursue collections of amounts owing to the Commission and because we hired a recruiting firm to help us fill a senior management position.

During the year, the Human Resource Committee hired the following consultants:

- LD Bell Consulting Inc. and Hay Group to help develop better measures of organizational success and to help strengthen the alignment of executive commissioner and senior management compensation with organizational performance
- Hay Group to survey and report on the competitiveness of certain position salaries

Occupancy

We rent office space under a lease that ends on November 30, 2011.

Information management

We spend significant amounts on information systems and management annually to improve market participants' access to our services, the information we maintain, the speed with which we deliver services, and the quality of our regulatory duties. Information management has three main components:

- Software licensing and maintenance fees – most significantly, for office productivity, workflow, and document management applications
- Electronic information services and hardcopy material costs
- Physical record scanning and storage costs

Administration

The significant components of administration expense are stationary and office supplies, copier leases, meeting expenses, hearing witness expenses, payroll processing, and bank charges.

External communications

The significant components of external communications expense are:

- Design, writing, and printing costs, including our share of BC Gazette production costs
- Third-party meeting costs
- Postage and courier
- Advertising, primarily recruitment advertising costs

Significant fiscal 2007 communication activities included developing InvestRight (a new investor education program), delivering related investor and industry education seminars, hosting Capital Ideas round-table discussions, developing new website content, and producing our annual report.

Significant operating expense variances

Expenses came in as expected, $1.1 million higher than fiscal 2006. Most significantly:

VARIANCE	VS. BUDGET	VS. 2006
Salaries and benefits costs were higher than expected because higher vacancies only partly offset higher severance and a capital payment for loss of statutory office.	+ $0.1 million	+ $1.0 million
Professional fees were higher than expected because of higher outside legal counsel charges relating to sanction collections and higher recruitment agency costs to fill vacancies.	+$0.2 million	+ $0.3 million
Other small variances, net	- $0.3 million	- $0.2 million
Total expense variances, 0% of budget	NIL	+$1.1 million

EDUCATION RESERVE

We collect administrative penalties under section 162 of the *Securities Act*. We also negotiate settlement amounts. We appropriate these revenues to our Education Reserve, which we spend only to educate securities market participants and members of the public about investing, financial matters or the operation or regulation of securities markets.

The Education Reserve balance was $3.3 million (fiscal 2006 - $2.4 million) at the period end.

	FISCAL 2007	FISCAL 2006	$ CHANGE	% CHANGE
OPENING BALANCE, APRIL 1	$ 2,426,635	$ 2,840,981	$ (414,346)	-15%
Additions	1,432,335	710,811	721,524	102%
Investment income	127,130	72,536	54,594	75%
Disbursements	(644,671)	(1,197,693)	(553,022)	-46%
Closing Balance, March 31	3,341,429	2,426,635	914,794	38%
Commitments outstanding	(206,749)	(392,426)	(185,677)	-47%
BALANCE, NET OF COMMITMENTS	$ 3,134,680	$ 2,034,209	$ 1,100,471	54%

We fund education projects both directly and in partnership with others. We evaluate each proposed project against criteria to assess the need for the project, the project's design and success measures, a potential partner's background and experience, and the degree to which the project's goals align with our service and operating plans. Education reserve disbursements totaled $0.6 million, $0.1 million lower than budget and $0.6 million lower than Fiscal 2006. The following chart details disbursements during the year, and commitments on March 31, 2007.

RECIPIENT	NATURE	PAID	REMAINING COMMITMENT
BC Coalition to Eliminate Abuse of Seniors	BC CEAS developed & delivered "Protect Your Money" program to seniors across BC. Delivered 17 seminars to 682 seniors.	-	6,000
BC Crime Prevention Association	The CPA will use its website and other communication channels to promote InvestRight and the Red Flags campaign. Val MacLean will accompany Patricia Bowles on the 8 city and town tour to promote the InvestRight website and Red Flags campaign.	50,509	28,023
BCIT	To develop a specialty certificate in securities fraud analysis by building on existing certificate programs. BCIT and BCSC staff are developing a new 3 credit course "Fraudulent Financial Statements" and substantially revising another "Investigating a Securities Crime."	-	15,000
BCSC	Series of seminars on NI 43-101 Standards of Disclosure for Mineral Projects. Staff delivered 5 seminars to over 700 professionals.	3,200	-
BCSC	Fall InvestRight tour to Victoria, Kelowna, Prince George, and Kamloops. We made a second trip to Prince George to deliver a workshop to the northern teachers' annual symposium. Other investor education events, including the CPA kick-off, the Financial Forum, and a Penticton trade show.	39,374	-
Better Business Bureau	BBB will use its various communication and distribution channels to promote the launch of InvestRight and the Red Flags campaign. We also sponsor the BBB's Scam Jam, an annual crime prevention symposium.	39,575	17,425
Brooke Campbell	The Portfolio Challenge. An investing-based, e-learning program with the look, feel and functionality of a real on-line broker. Registered student teams from BC universities, colleges and several high schools are given the opportunity to learn about our capital markets in a risk free, yet realistic, investment experience using a simulated stock market software program.	10,000	-
Chinese Cultural Society	To create free online educational program for Chinese immigrants giving them an introduction to the Canadian capital markets.	-	7,276
CSA	CSA Investor Index. Provided information about British Columbians' investment experience, including their experience with fraud.	11,231	-
Ektron Inc	To buy a content management license and domain name for the InvestRight website.	11,998	-
Fjord Interactive Marketing Technology	To provide strategic, creative and technical services for the Commission's investor education launch and promotion of our InvestRight website.	60,875	-

RECIPIENT	NATURE	PAID	REMAINING COMMITMENT
Fraser Valley Pastors	Year 3 of a program to promote awareness about affinity fraud to the various religious communities in the Fraser Valley.	40,000	30,000
Front Runner Productions	To create an educational DVD that includes interviews with fraud victims. A component of our new InvestRight education strategy.	15,000	-
Junior Achievement	Sponsorship of the Junior Achievement (JA) Dollars and Sense program. JA delivers hundreds of Dollars & Sense programs to thousands of BC students every school year.	165,200	21,000
Justice Institute	Developed a 3-day course for dealers' supervisory and compliance staff. Delivered 2 pilot programs. Revised program from feedback.	30,415	-
Mennonite Brethren Churches	Three Mennonite Stewards will deliver investor education to members of their 110 churches throughout BC. The educational message will focus on the Don't Get Scammed brochure. The BCSC provides the materials, public awareness advertisements and sponsors 3 special events.	6,225	15,775
Optimum	Created the Red Flags Logo. We use the Red Flags campaign to draw investors to the InvestRight and BCSC websites.	7,900	-
Planning 10	Developed measurement program and better website for Planning 10. Planning 10 is a finances section for a Ministry of Education mandated planning course for grade 10 students.	93,517	-
SHARE	Shareholder Association for Research & Education is a non-profit organization established to promote responsible investment practices by pension funds. Share is developing an education program for pension plan trustees.	-	66,250
UBC Mineral Deposit Research Unit	Developed a detailed business plan for new program to integrate technical exploration knowledge with an understanding of regulatory and business environment.	15,000	-
Various	InvestRight education strategy launch materials and initial marketing. Red Flag brochure and design. Advertising in local newspapers to warn investors about ongoing fraud.	22,632	-
TOTAL PAID AND REMAINING COMMITMENTS		644,671	206,749

FINANCIAL POSITION AND LIQUIDITY

Cash position and investing activities

Cash and investments (including the fee stabilization reserve, but excluding amounts reserved for education) totaled $22.8 million on March 31, 2007 (March 31, 2006 - $18.7 million). The increase is due to the increase in revenues. During the year we invested $0.2 million (fiscal 2006 - $0.3 million) in capital assets, primarily information technology.

We had a working capital surplus of $0.8 million on March 31, 2007 (fiscal 2006 - $2.1 million deficit). We have sufficient liquidity and capital resources. In addition, we can draw on our $13.0 million fee stabilization reserve, when necessary.

Assets

Capital assets declined by $0.8 million to $3.1 million (March 31, 2006 - $3.9 million) because amortization ($1.0 million) exceeded additions ($0.2 million).

Liabilities

Deferred revenue increased $0.4 million to $6.1 million (March 31, 2006 – $5.7 million). Deferred revenue is calendar year registrations received in advance.

Accrued salaries decreased $0.2 million to $2.3 million (March 31, 2006 – $2.5 million). The most significant components of accrued salaries are $1.8 million for fiscal 2007 incentives and $0.4 million to accrue the five days since our last payroll before year-end.

QUARTERLY FINANCIAL INFORMATION

Prospectus and other statutory filing patterns normally generate surpluses from operations (excluding education fund revenues and disbursements) in the first and third quarters, which are offset by deficits in the second and fourth quarters. Due to strong market activity, the fourth quarter of fiscal 2007 generated a surplus.

($'000s)	FISCAL 2007				FISCAL 2006			
	MAR.	DEC.	SEPT.	JUNE	MAR.	DEC.	SEPT.	JUNE
OPERATING								
Revenues	$ 7,908	$ 6,901	$ 7,261	$ 9,570	$ 6,752	$ 6,875	$ 5,511	$ 9,533
Expenses	7,372	6,716	7,447	7,017	7,005	6,560	6,908	6,939
Surplus (Deficit)	$ 536	$ 185	$ (186)	$ 2,552	$ (253)	$ 315	$ (1,397)	$ 2,594
EDUCATION								
Revenues	$ 304	$ 344	$ 84	$ 828	$ 126	$ 221	$ 320	$ 116
Disbursements	(79)	(13)	(353)	(200)	(214)	(177)	(552)	(255)
Surplus (Deficit)	$ 225	$ 331	$ (269)	$ 628	$ (88)	$ 44	$ (232)	$ (139)
CONSOLIDATED								
Surplus (Deficit)	$ 761	$ 516	$ (455)	$ 3,180	$ (341)	$ 359	$ (1,629)	$ 2,455

As previously mentioned, we fund operations primarily from filing fees paid by market participants. Fee revenue fluctuates with market activity, rising in strong market conditions and falling in weak market conditions. We will review our fee structure and may propose changes in 2008 to ensure we break even in future years.

We have been supporting government's work to implement the regulatory reforms outlined in the Provincial / Territorial Memorandum of Understanding Regarding Securities Regulation (Passport MOU), signed September 30, 2004 by most of Canada's provincial ministers responsible for securities regulation. The Passport MOU proposes single window access to capital markets in participating provinces and territories, and a review of the regulatory fees charged in the context of the passport system. Changes to date have not materially affected our operations.

While the Passport MOU may ultimately change what we do and how we fund our operations, we have forecast no impact on our revenues and expenses because we expect any changes to have no net impact on our bottom line.

We collect about 90% of our fee revenue through the SEDAR and NRD electronic filing systems. Under various agreements with the CSA, CDS operates the SEDAR, SEDI and NRD electronic filing systems. Should CDS become unable or unwilling to continue to operate them, the CSA would have to contract another party to host them.

CDS INC. (CDS) operates the SEDAR and SEDI national filing systems on behalf of the Canadian Securities Administrators (CSA) under agreements with the Alberta Securities Commission, British Columbia Securities Commission, Ontario Securities Commission (OSC), and l'Autorite des Marches Financiers (AMF), together called the CSA Principal Administrators. CDS operates the NRD national filing system under agreements with the CSA Principal Administrators and the Investment Dealers Association (IDA). Under the agreements:

- The CSA Principal Administrators must pay CDS if the SEDAR system budgeted operating costs exceed revenues ("shortfall"). Our portion of any SEDAR shortfall is limited to 15.4%.
- CDS must pay SEDAR revenues in excess of system budgeted operating costs ("surplus") to the CSA Principal Administrators. Any surplus is not divisible; the CSA Principal Administrators own it as a group.
- CDS and the CSA Principal Administrators agree to share actual versus budgeted system operating cost ("expense") variances equally.

The OSC is holding $16.2 million in trust. The funds are the national filing systems' accumulated surpluses and expenses variances to October 31, 2006 and interest earned on those amounts to March 31, 2007. The CSA Principal Administrators have agreed that we will use these funds only for the benefit of national filing system users through system enhancements or usage fee adjustments.

CONTRACTUAL OBLIGATIONS

Our contractual obligations as at March 31, 2007 are:

$ (millions)	TOTAL	< 1 YEAR	2 - 3 YEARS	4 - 5 YEARS	> 5 YEARS
Rent and operating costs (net of sublease recoveries)	9.2	1.9	3.9	3.4	-

CRITICAL ACCOUNTING ESTIMATES

Management must make estimates and assumptions when preparing the financial statements. Management makes those assumptions based on experience and current conditions and believes that they are reasonable. However, actual results may differ from management's estimates. In our financial statements, management has estimated the portion of accounts and advances receivable that we will receive, the useful lives of our capital assets, and the value of employee leave liability.

Accounts and advances receivable

We accrue amounts due when they meet generally accepted revenue recognition criteria. We recognize administrative penalties and designated settlements when we issue the decision or reach an agreement and the amounts are determined to be collectible.

Capital assets

We capitalize goods and services when their cost is greater than $2,000 and their benefit to us extends beyond the current fiscal year. We amortize the cost of our capital assets over their expected useful lives based on our experience with similar assets. Our capital assets consist primarily of leasehold improvements and information technology. New information could lead us to reduce or eliminate an asset's value or expected useful life.

Employee leave liability

Our employees accrue vacation and other leave entitlements based on their years of service. We have estimated the value of employee leaves not yet taken based on our employee records and attributed benefit costs to those leaves based on our experience. The actual value of employee leaves taken will vary depending on their particular circumstances.

OUTLOOK FOR FISCAL 2008

We expect to break even in fiscal 2008.

We assume market activity will decline and fee revenue will drop $1.3 million (4%).

We expect expenses to increase $1.7 million (6%) in fiscal 2008 due primarily to higher salary costs. Salaries and benefits costs will increase $1.4 million (6%) because of salary and staff size increases.

We anticipate having a cash balance (including the fee stabilization reserve, but excluding amounts reserved for education) at March 31, 2008 of approximately $23 million (March 31, 2007 - $22.7 million).

Statement of management responsibility

Management of the British Columbia Securities Commission is responsible for ensuring that the financial statements and other financial information in this annual report are complete and accurate.

Management, consisting of the Executive Director and her senior staff, has prepared the financial statements according to accounting principles that are generally accepted in Canada. The preparation of financial statements necessarily involves the use of estimates, which have been made using careful judgment. It is possible that circumstances will cause actual results to differ. Management does not believe it is likely that any differences will be material.

Financial information contained throughout this annual report, including the management discussion and analysis and the charts and figures in the body of the annual report, is consistent with these financial statements.

Management develops and maintains systems of control that give the Commission reasonable assurance that management has:

- operated within its authorized limits,
- safeguarded assets, and
- kept complete and accurate financial records.

The commissioners are responsible for establishing prudent rules of business and staff conduct. It is the Commission's policy to maintain the highest standards of ethics in all its activities. The Commission has created an employee conduct policy, including conflict of interest rules for employees and commissioners, to achieve those standards.

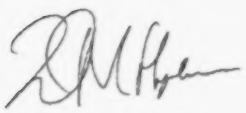
The commissioners are also responsible for ensuring that management fulfills its financial reporting and control responsibilities, and have appointed an independent audit committee to oversee the financial reporting process. The committee members are independent commissioners who do not participate in the day-to-day operations of the Commission. The audit committee meets regularly throughout the year with management, the internal auditors and the external auditors to review the:

- financial statements,
- adequacy of financial reporting, accounting systems and controls, and
- internal and external audit functions.

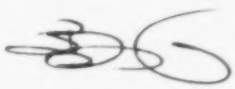
The internal auditors are charged with the responsibility of reviewing and evaluating the adequacy of and compliance with the Commission's internal control standards. The internal auditors report the results of their reviews and make recommendations both to management and the audit committee. The external auditor's responsibility is to express an opinion on whether the financial statements, in all material respects, fairly present the commission's financial position, results of operations and cash flows in accordance with accounting principles that are generally accepted in Canada. The internal and external auditors have full and open access to the audit committee, with and without the presence of management.

The audit committee has reviewed these financial statements and has recommended the commissioners approve them.

The British Columbia Lieutenant Governor in Council has appointed the Auditor General to be the independent auditor of the Commission. The Auditor General has examined the financial statements and his report follows.



DOUGLAS M. HYNDMAN
Chair and Chief Executive Officer



BRENDA M. LEONG
Executive Director

Report of the Auditor General of British Columbia

To the Commissioners of the British Columbia Securities Commission, and

To the Attorney General, Province of British Columbia:

I have audited the balance sheet of the *British Columbia Securities Commission* as at March 31, 2007 and the statements of operations, of surpluses, and of cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *British Columbia Securities Commission* as at March 31, 2007 and the results of its operations, its surpluses, and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Victoria, British Columbia
April 20, 2007

Errol Price, CA
Deputy Auditor General

financial statements

For the year ended March 31, 2007

BALANCE SHEET

British Columbia Securities Commission
at March 31, 2007 (audited)

	2007	2006
ASSETS		
Current assets:		
Cash and short term investments (note 4)	$ 9,791,726	$ 6,695,621
Accounts and advances receivable (note 5)	338,326	220,855
Prepaid expenses and deposits (note 6)	410,397	508,227
	10,540,449	7,424,703
Investments held for designated purposes (note 4)	16,341,429	14,426,635
Capital assets (note 7)	3,101,509	3,942,872
	$ 29,983,387	$ 25,794,210
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$ 680,966	$ 494,954
Accrued salaries	2,260,551	2,524,500
Deferred revenue	6,086,021	5,725,755
Employee leave liability (note 8)	677,741	750,792
	9,705,279	9,496,001
Deferred rent	110,335	132,605
SURPLUSES		
General	3,826,344	1,738,969
Fee stabilization reserve (note 9)	13,000,000	12,000,000
Education reserve (note 9)	3,341,429	2,426,635
	20,167,773	16,165,604
	$ 29,983,387	$ 25,794,210

Note 13 describes our commitments and contingent liabilities.

The accompanying notes are part of the financial statements.

Approved by the Commission:

DOUGLAS M. HYNDMAN
Chair

JOHN K. GRAF
Member

STATEMENT OF OPERATIONS

British Columbia Securities Commission
for the year ended March 31, 2007 (audited)

	2007	2006
REVENUES		
Fees		
Prospectus and other distributions	$ 16,322,593	$ 14,726,105
Registration	8,691,771	8,336,935
Financial filings	5,032,260	4,609,170
Exemptive orders and other	512,467	495,174
Administrative penalties and designated settlements (note 10)	1,432,335	710,811
Enforcement cost recoveries (note 10)	300,208	69,100
Investment income	907,116	507,961
	33,198,750	29,455,256
EXPENSES		
Salaries and benefits (note 12)	21,281,068	20,237,195
Professional services	2,002,771	1,703,402
Occupancy	1,784,962	1,728,432
Depreciation	1,074,890	1,180,399
Information management	822,608	820,219
Education reserve (note 9)	644,671	1,197,693
External communications	384,692	232,565
Administration	373,443	617,381
Staff training	356,813	378,396
Business travel	325,072	368,214
Telecommunications	145,391	146,179
	29,196,581	28,610,295
EXCESS OF REVENUES OVER EXPENSES	$ 4,002,169	$ 844,961

The accompanying notes are part of the financial statements.

STATEMENT OF SURPLUSES

British Columbia Securities Commission
for the year ended March 31, 2007 (audited)

	GENERAL	FEE STABILIZATION RESERVE	EDUCATION RESERVE	TOTAL
BALANCE, MARCH 31, 2005	$ 657,678	$ 11,821,984	$ 2,840,981	$ 15,320,643
Excess of revenues over expenses	844,961	-	-	844,961
Appropriation during the year	236,330	178,016	(414,346)	-
BALANCE, MARCH 31, 2006	$ 1,738,969	$ 12,000,000	$ 2,426,635	$ 16,165,604
Excess of revenues over expenses	4,002,169	-	-	4,002,169
Appropriation during the year	(1,914,794)	1,000,000	914,794	-
BALANCE, MARCH 31, 2007	$ 3,826,344	$ 13,000,000	$ 3,341,429	$ 20,167,773

The accompanying notes are part of the financial statements.

STATEMENT OF CASH FLOWS

British Columbia Securities Commission
for the year ended March 31, 2007 (audited)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from fees	$ 30,993,072	$ 28,475,452
Cash receipts from penalties and settlements	1,543,047	779,911
Cash paid to and on behalf of employees	(21,605,930)	(20,219,674)
Cash paid to suppliers and others	(6,587,085)	(7,012,535)
Investment income received	907,116	493,461
	5,250,220	2,516,615
CASH FLOWS USED FOR INVESTING ACTIVITIES		
Paid for capital assets	(239,321)	(269,542)
Net increase in cash and cash equivalents	5,010,899	2,247,073
Cash and cash equivalents, beginning of year	21,122,256	18,875,183
Cash and cash equivalents, end of year	$ 26,133,155	$ 21,122,256
Represented by:		
Cash and short term investments	$ 9,791,726	$ 6,695,621
Investments held for designated purposes	16,341,429	14,426,635
	$ 26,133,155	$ 21,122,256

The accompanying notes are part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

British Columbia Securities Commission
for the year ended March 31, 2007 (audited)

1. NATURE OF OPERATIONS

The British Columbia Securities Commission is a Crown corporation created by the Province of British Columbia on April 1, 1995. We are responsible for the administration of the *Securities Act*. As a government agency, we pay only those taxes paid by the provincial government.

2. SIGNIFICANT ACCOUNTING POLICIES

Management has prepared these financial statements according to accounting principles that are generally accepted in Canada. The important accounting policies used are:

a) CASH AND CASH EQUIVALENTS / INVESTMENTS

Under BC law, we must invest any money that we receive, but do not immediately need, in an investment pool that the British Columbia Investment Management Corporation, a BC government organization, administers. We buy units in pooled investment funds that invest primarily in:

- Canadian money market instruments maturing within 15 months, and
- Canadian bonds issued or guaranteed by the government of Canada or a provincial government and maturing within 10 years.

Any earnings from our investments are reinvested in the same fund and add to the carrying value of the units we own.

We value our short term investments and investments held for designated purposes at their market value. The fair value of short term investments and investments held for designated purposes is considered to be the market value. Fair value is the amount that would be agreed upon by two unrelated parties to a transaction who have full knowledge of all relevant facts and who are under no obligation to act.

b) CAPITAL ASSETS

We record our capital assets at cost. We depreciate them using the straight line method over their useful lives. We estimate the useful lives of our assets to be as follows:

- Information technology assets – four years
- Leasehold improvements – the length of the remaining lease term or the length of the estmated useful life of each improvement, whichever time is shorter
- Office furniture and equipment – ten years

c) REVENUE

We accrue prospectus and other statutory filing fees when filings are made and collectibility is assured. The amounts due and their collectibility are normally determined simultaneously, as most filings are paid for immediately.

Registration fees are paid to us in advance. We recognize only the portion of fees that relate to the registration period falling in the current fiscal year as revenue. We treat the balance as deferred revenue and recognize it as income in the next year.

We recognize administrative penalties and designated settlements after we issue a decision or reach an agreement and determine the amounts are collectible.

d) Estimates

Canadian generally accepted accounting principles require management to make estimates and assumptions for certain amounts disclosed in the financial statements.
In our financial statements, management has estimated the:

- portion of accounts and advances receivable that we will receive
- useful lives of capital assets
- value of the employee leave liability

Results may differ from these estimates.

3. FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalent assets, accounts and advances receivable, accounts payable and accrued liabilities, accrued salaries, and employee leave liability approximate their fair value because of their short maturity dates.

Short term investments and investments held for designated purposes are subject to credit risk and interest rate risk. Credit risk is the risk that investment values will fluctuate because debtors cannot pay. We believe this risk is low because most of our investments are in government securities. Interest rate risk is the risk that investment values will fluctuate because of changes in market interest rates. We mitigate this risk by investing primarily in short term instruments.

4. INVESTMENTS

Investments are carried at market value, and consist of:

	2007			2006		
	UNITS	EXPECTED RETURN	MARKET VALUE	UNITS	EXPECTED RETURN	MARKET VALUE
SHORT TERM INVESTMENTS						
Pooled Canadian Money Market Fund ST2	-	-	$ -	0.17	4.07%	$ 574,736
INVESTMENTS HELD FOR DESIGNATED PURPOSES						
Cash	-	-	$ 688,768	-	-	$
Pooled Canadian Money Market Fund ST2	2.72	4.50%	9,328,237	2.55	4.07%	8,371,297
Short Term Bond Fund	3.28	4.15%	6,324,424	3.28	4.12%	6,055,338
		4.17%	$ 16,341,429		4.09%	$ 14,426,635

NOTES TO FINANCIAL STATEMENTS

British Columbia Securities Commission
for the year ended March 31, 2007 (audited)

5. ACCOUNTS AND ADVANCES RECEIVABLE

Accounts and advances receivable consists of:

	2007	2006
Settlement sanctions	$ 189,496	$ -
Hearing & legal cost recoveries	100,000	-
Employee advances and other	48,830	60,968
Filing fees, net of allowance	-	11,104
Rent overpayment due to bank error	-	148,783
	$ 338,326	$ 220,855

6. PREPAID EXPENSES AND DEPOSITS

Prepaid expenses and deposits consists of:

	2007	2006
IDA registration processing fees	$ 263,437	$ 234,721
Information technology maintenance contracts	136,483	125,199
Other	10,477	-
Rent	-	148,307
	$ 410,397	$ 508,227

7. CAPITAL ASSETS

Capital assets consist of:

	2007			2006
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
Leasehold improvements	$ 4,030,712	$ 2,271,338	$ 1,759,374	$ 2,075,184
Office furniture	1,857,974	1,141,397	716,577	901,050
Office equipment	649,556	464,166	185,390	215,215
Information technology *(a)*	1,647,410	1,207,242	440,168	751,423
	$ 8,185,652	$ 5,084,143	$ 3,101,509	$ 3,942,872

a) During the year, we wrote off obsolete, fully depreciated Information Technology assets. We reduced both the cost of assets and the corresponding accumulated depreciation accounts by $2,553,806.

8. EMPLOYEE LEAVE LIABILITY

Employee leave liability is what we owe to our employees for their accumulated vacation time and other leave entitlements not yet taken.

9. RESERVES

	FEE STABILIZATION APPROPRIATION (A)	EDUCATION (B)	TOTAL
BALANCE, MARCH 31, 2005	$ 11,821,984	$ 2,840,981	$ 14,662,965
Additions and appropriations	178,016	710,811	888,827
Investment income allocation	-	72,536	72,536
Disbursements	-	(1,197,693)	(1,197,693)
BALANCE, MARCH 31, 2006	12,000,000	$ 2,426,635	$ 14,426,635
Additions and appropriations	1,000,000	1,432,335	2,432,335
Investment income allocation	-	127,130	127,130
Disbursements	-	(644,671)	(644,671)
BALANCE, MARCH 31, 2007	$ 13,000,000	$ 3,341,429	$ 16,341,429

We appropriate amounts from our general surplus to the fee stabilization reserve so temporary revenue reductions will not immediately impair our ability to operate, or require immediate fee increases. This year, we appropriated $1,000,000 (fiscal 2006 - $178,016) of the general surplus to the fee stabilization reserve.

We collect administrative penalties under section 162 of the *Securities Act*. We also negotiate settlement amounts that exceed our investigation costs. We appropriate both of these amounts from our general surplus to the education reserve. Education reserve funds may only be spent for the purpose of educating securities market participants and members of the public about investing, financial matters or the operation or regulation of securities markets. We mix education reserve funds with our other funds for investment purposes, so we allocate a portion of our investment income to the education reserve.

10. ENFORCEMENT REVENUE

Enforcement revenues are unpredictable. Revenues depend on the timing of enforcement actions completed during the period and on our ability to collect assessed amounts. Collecting enforcement revenues can be difficult because respondents often have limited assets, poor credit or have left British Columbia. During fiscal 2007, $nil (fiscal 2006 - $2,328,115) was not recognized as revenue because collectibility was unlikely. We vigorously pursue all uncollected amounts.

11. RELATED PARTY TRANSACTIONS

We are related through common ownership to all provincial government ministries, agencies and Crown corporations. We conducted all transactions with these entities as though we were unrelated parties.

12. POST-EMPLOYMENT EMPLOYEE BENEFITS

We, and our employees, contribute to the Public Service Pension Plan, a multi-employer plan established for the benefit of certain British Columbia public service employees. The plan is contributory, and its basic benefits are defined. The plan has about 47,000 active members and approximately 35,000 retired members. A board of trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of assets and administration of benefits.

An actuarial valuation of the plan is performed every three years to assess the financial position of the plan. The latest valuation, as at March 31, 2005, indicated a $767 million unfunded liability for basic pension benefits. In addition to basic benefits, the plan also provides supplementary benefits, including inflation indexing. These supplementary benefits are paid only to the extent that they have been funded, which is currently done on a "pay-as-you-go" basis. The plan's unfunded liability would increase to $2,208 million if indexed benefits were funded in advance. Surpluses and deficits are not attributable to individual employers, but affect future contribution levels. We charged $1,432,252 to expense for employer contributions during the period (fiscal 2006 - $1,083,770).

13. COMMITMENTS AND CONTINGENT LIABILITIES

a) Office leases

We have leased office space to November 30, 2011. Our annual rent, net of sublease recoveries is approximately $925,000. We also pay our share of building operating and maintenance costs.

b) National filing systems operating agreements

CDS INC. (CDS) operates the SEDAR and SEDI national filing systems on behalf of the Canadian Securities Administrators (CSA) under agreements with the Alberta Securities Commission, British Columbia Securities Commission, Ontario Securities Commission (OSC), and l'Autorité des Marchés Financiers (AMF), together called the CSA Principal Administrators. CDS operates the NRD national filing system under agreements with the CSA Principal Administrators and the Investment Dealers Association (IDA). Under the agreements:

- The CSA Principal Administrators must pay CDS if the SEDAR system budgeted operating-costs exceed revenues ("shortfall"). Our portion of any SEDAR shortfall is limited to 15.4%.
- CDS must pay SEDAR revenues in excess of system budgeted operating costs ("surplus") to the CSA Principal Administrators. Any surplus is not divisible; the CSA Principal Administrators own it as a group.
- CDS and the CSA Principal Administrators agree to share actual versus budgeted system operating cost ("expense") variances equally.

The OSC is holding $16.2 million in trust. The funds are the national filing systems' accumulated surpluses and expenses variances to October 31, 2006 and interest earned on those amounts to March 31, 2007. The CSA Principal Administrators have agreed that we will use these funds only for the benefit of national filing system users through system enhancements or usage fee adjustments.

c) Legal claims

We are involved in several legal actions arising from the operation of our business. The outcome and ultimate disposition of these actions are not determinable at this time. We do not expect the outcome of any of these proceedings, individually or in total, to have a material impact on our financial position.

/ Alignment with government's strategic plan

Our service plan aligns with Goal 1 and Goal 5 in the government's strategic plan.
Our mission does not relate to the government's other three goals.

GOVERNMENT GOAL 1 / *Make BC the best-educated, most literate jurisdiction on the continent*

We support this goal in the following ways:

- We provide BC high school teachers with an award-winning financial literacy resource for youth. The Ministry of Education-endorsed resource for the Planning 10 Finances curriculum helps young people acquire the knowledge, skills and confidence they need to begin planning for their post-secondary education or career, and to navigate safely through the financial realities of adulthood. Since 2004, over 1,200 teachers in all 61 school districts have requested the BCSC's financial life skills resource.

We support lifelong learning by offering investor education throughout the province, primarily to seniors and pre-retirees. Our InvestRight website provides a wide range of tools to help investors and non-investors develop critical thinking skills so they can protect themselves from becoming victims of fraud. We extend the reach of this education via seminars in all corners of the province delivered through partnerships with the BC Crime Prevention Association, the BC Hydro Power Pioneers, the Mennonite Brethren, and two Fraser Valley pastors known as God's Fraud Squad.

- Research plays an important role in determining where to put the emphasis in our investor education programs. Last summer we surveyed close to 700 British Columbians to determine skills and knowledge of investors, awareness and levels of fraud. This year, we will look into a number of areas including the effects of fraud on individuals, and why only 14% of people approached for fraud actually report it.

GOVERNMENT GOAL 5 / *Create more jobs per capita than anywhere else in Canada*

A financially literate population contributes to a growing and health economy. In addition to an extensive investor education program, we support Goal 5 in the following ways:

- By fostering a local market that is fair and warrants investor confidence, we further BC's reputation as a centre for raising capital.
- By minimizing the regulatory burden, we encourage investment in BC by supporting a business climate that allows for innovation and growth.

/ Glossary

AIF Annual Information Form. An AIF is a legally required disclosure document intended to provide material information about a company and its business at a particular point in time in the context of its historical and possible future development.

CD Continuous Disclosure, the legally required public disclosure by issuers of their financial statements and news releases.

CDS CDS Inc. operates SEDAR, SEDI, and NRD on behalf of Canadian securities regulators. It is a subsidiary of The Canadian Depository for Securities, which handles securities clearing and settlement services in Canada.

COMMISSIONER A person appointed to the BC Securities Commission under the Securities Act. An executive commissioner is a commissioner who is the chair, a vice chair, or a full-time commissioner. An independent commissioner is a non-executive commissioner and is independent of management.

COSRA Council of Securities Regulators of the Americas, of which the BCSC is a member. COSRA seeks to establish basic and common legal, regulatory, and structural principles that promote efficient and liquid markets while ensuring appropriate levels of investor protection.

CSA Canadian Securities Administrators, a council of the securities regulators of Canada's 13 provinces and territories.

CTO Cease Trade Order. An order issued by a provincial or territorial securities commission or similar regulatory body against a company, management of a company, or any individual for a breach or an alleged breach of the Securities Act. Most CTOs are issued as a result of a filing deficiency, such as the failure to file a proper quarterly or annual financial statement, but may also be issued as a result of an enforcement action that involves a proven or admitted breach of the Act. In some cases, a temporary CTO may be issued while an investigation is ongoing. The order prohibits trading in the issuer's securities or restricts the ability of an individual to trade.

IDA Investment Dealers Association of Canada, the self-regulatory organization for firms that trade and advise in securities.

IMET Integrated Market Enforcement Team, a partnership initiative between the federal Ministry of Justice, the Royal Canadian Mounted Police, the Vancouver Police and the BCSC to improve policing in the securities markets.

INSIDER DISCLOSURE The legally required public disclosure by insiders of their securities holdings and transactions.

IOSCO International Organization of Securities Commissions, of which the BCSC is an associate member. IOSCO promotes cooperation, mutual assistance, information sharing, and the development of standards to improve the regulation of securities markets internationally.

ISSUER A company or other entity that has issued or is proposing to issue securities.

JOINT FORUM OF FINANCIAL MARKET REGULATORS
Founded in 1999 by the Canadian Council of Insurance Regulators (CCIR), the Canadian Securities Administrators (CSA), and the Canadian Association of Pension Supervisory Authorities (CAPSA), the Joint Forum coordinates the development of harmonized cross-sectoral and cross-jurisdictional solutions to financial services regulatory issues. It also includes representation from the Canadian Insurance Services Regulatory Organizations (CISRO).

MD&A Management Discussion and Analysis, the section of a quarterly or annual financial report in which the issuer's management comments on its financial results.

MFDA Mutual Fund Dealers Association of Canada, the self-regulatory organization for firms that specialize in trading mutual funds.

/ Glossary

NASAA North American Securities Administrators Association, of which the BCSC is a member. NASAA consists of Canadian provincial, American state and Mexican federal securities regulators. NASAA promotes cooperation in the development and enforcement of securities laws and to assist members in investor protection.

NASDAQ The largest electronic screen-based equity securities market in the United States, originally founded in 1971.

NATIONAL CTO DATABASE A real-time, harmonization system of Cease Trade Order (CTO) information operated and maintained by the CSA. The national CTO database includes outstanding CTOs against issuers, management and insiders from the securities regulatory authorities in most provinces.

NRD National Registration Database, the CSA's national web-based system that persons and firms who are dealers or advisers in the registration forms electronically.

OBSI Ombudsman for Banking Services and Investments, an independent Canadian body that investigates complaints from individuals and small businesses about products and services provided by banks and investment and mutual fund dealers. Its objective is to provide impartial and prompt resolution of complaints. The service is free of charge to consumers, who must first try to resolve complaints directly with the bank or dealer before contacting OBSI.

OTCBB Over-the-Counter Bulletin Board, a quotation service that displays quotes, last sale prices and volume information for equity securities trading over the counter in the United States. It is a vehicle market makers use to post firm quotations for the stocks in which they are obligated to buy or sell from investors.

PINK SHEETS An electronic system published by Pink Sheets LLC in a daily list and the quotation service for securities, primarily used by over-the-counter trading OTC securities in the United States.

PONZI SCHEME A fraudulent investment operation that involves paying abnormally high returns to investors out of the money paid in by subsequent investors. The high returns paid out entice ever-increasing flows of money that investors to keep the scheme going.

REGISTRANT A firm or individual that is registered under the Act to trade in or advise on securities.

REPORTING ISSUER A company that has offered securities to the public or listed its shares on an exchange. These issuers, often called "public companies", are subject to the Continuous Disclosure (CD) requirements of securities laws.

RULES Securities Rules, BC Reg. 194/97, specific requirements under the Act, approved by government and issued by the BCSC.

RS Market Regulation Services Inc., the self-regulatory organization that oversees equity trading on exchanges and other markets.

SEDAR System for Electronic Document Analysis and Retrieval, the CSA's online submission filing system for disclosure by public companies and investment funds.

SEDI System for Electronic Disclosure by Insiders, the CSA's national web-based system that facilitates the filing and public dissemination of insider reports.

SRO Self-regulatory organization.

TSX Toronto Stock Exchange. TSX is a subsidiary of TSX Group.

TSX VENTURE EXCHANGE The national junior equity exchange, a subsidiary of TSX Group.

TSX GROUP A public company that owns the Toronto Stock Exchange and TSX Venture Exchange.

resources for investors

If you have any questions regarding your financial adviser, investment firm, or an investment type, or if you would like to make a complaint, please call our Inquiries Group at **604.899.6854**
Outside the greater Vancouver area:
Phone: **1.800.373.6393**
(BC and Alberta only)
E-mail: **inquiries@bcsc.bc.ca**

The BCSC's **investRight.org** website offers a range of tools to help investors develop critical thinking skills. Tools include a "scam meter," which allows investors to see if the investment they are considering shares any common traits with past scams. The site also enables visitors to conduct background checks, and provides information on a variety of investment products, and links to videos in which victims impacted by fraud tell their personal stories. The BCSC corporate website offers information to promote understanding of the financial system and to help investors make financial decisions. The information is not a substitute for financial or other professional advice. Always consult a professional adviser if you need financial advice about your personal circumstances.

Search our website databases at **www.bcsc.bc.ca** to:

- Check an adviser's credentials
- Track insider trading reports
- View our disciplined persons list
- See BCSC rules, policies, and decisions

For information about public companies and mutual funds, visit the SEDAR website at **www.sedar.com**

For information about insider trading activity and to view insider reports online, visit the SEDI website at **www.sedi.ca**

BRITISH COLUMBIA
The Best Place on Earth

BRITISH COLUMBIA SECURITIES COMMISSION

PO Box 10142, Pacific Centre

Suite 1200 – 701 West Georgia Street

Vancouver, BC V7Y 1L2

T. 604.899.6500

F. 604.899.6506